

GAO

Report to the Chairman, Committee on
Energy and Commerce, House of
Representatives

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ENVIRONMENTAL ISSUES IN CENTRAL AND EASTERN EUROPE

U.S. Efforts to Help Resolve Institutional and Financial Problems





United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-255119

May 31, 1994

The Honorable John D. Dingell
Chairman, Committee on Energy
and Commerce
House of Representatives

Dear Mr. Chairman:

This report responds to your request to provide information on Central and Eastern Europe's institutional capacity for addressing environmental problems, the uses of U.S. environmental assistance to the region, and any problems in developing and implementing the U.S. environmental program for Central and Eastern Europe.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies to the Secretary of State, the Administrator of the Agency for International Development, the Administrator of the Environmental Protection Agency, and other interested parties. Copies will also be made available to others on request.

This report was prepared under the direction of Peter F. Guerrero, Director, Environmental Protection Issues, who may be reached on (202) 512-6111. Other major contributors to this report are listed in appendix VI.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Keith O. Fultz".

Keith O. Fultz
Assistant Comptroller General

Executive Summary

Purpose

Severe environmental degradation exists throughout Central and Eastern Europe. The region's problems are largely the result of prior communist governments' policies that promoted heavy industries and discouraged conservation by setting the prices of natural resources below market levels. The total cost for cleaning up the entire region has been difficult to estimate, but the World Bank projects that providing wastewater treatment to the major facilities in Poland, the Czech Republic, Slovakia, Hungary, and Bulgaria alone would cost about \$50 billion.

Recognizing the severity of the problem, the United States has directed a portion of its assistance for this region specifically to environmental protection. With the program now in its fifth year, the Chairman of the House Committee on Energy and Commerce has asked GAO to (1) describe the region's institutional capacity for addressing environmental problems, (2) describe the uses of U.S. assistance, and (3) identify any problems in developing and implementing the program.

In reviewing the environmental program, GAO focused on the three countries that receive the largest percentage of U.S. environmental assistance: Poland, Hungary, and the Czech Republic.

Background

Central and Eastern Europe's large metallurgical and chemical industries, heavy reliance on coal for energy needs, and limited treatment of municipal and industrial waste have all contributed to severe pollution. In some areas, environmental problems have significantly threatened human health.

Environmental assistance from the United States and other major industrialized countries began shortly after the radical political reforms started in Central and East European countries in 1989. The U.S. Department of State, which has the responsibility for coordinating all U.S. assistance to the region, relies on various U.S. departments and agencies to administer and implement assistance programs. The Environmental Protection Agency (EPA) was initially responsible for administering the U.S. environmental assistance program. However, the Congress consolidated the administrative responsibility for all U.S. assistance in fiscal year 1991, including that for environmental assistance, under the Agency for International Development (AID). AID is now the principal agency for implementing the U.S. environmental assistance program in Central and Eastern Europe.

Results in Brief

Since political and economic reforms began in 1989, the new democratic governments of Poland, Hungary, and the Czech Republic have taken various steps to build and strengthen the key institutions needed to protect the environment that have long been in place in the United States and other Western countries. However, these institutions are still weak and face significant challenges. Specifically, (1) the public's interest in environmental issues has declined in the wake of these countries' continuing economic crises, (2) the revision of environmental statutes and accompanying regulations is under way but not complete, (3) compliance monitoring and enforcement capabilities are weak, and (4) effective mechanisms for financing environmental protection are in the early stages of development.

The U.S. environmental assistance program in Central and East European countries has evolved as both donors and recipients have gained experience in how best to meet the region's environmental needs. U.S. efforts began in 1989 with a few demonstration projects in Poland and Hungary and then expanded in 1991 to include other Central and East European countries. Recognizing that international assistance would be able to address only a fraction of the region's environmental needs, the United States then shifted its efforts to strengthening the region's own institutional capabilities to improve the environment. While maintaining its focus on institution building, the United States has more recently sought to help the region obtain financing for capital environmental improvements from international financial institutions.

Under pressure to provide services quickly, AID's and EPA's initial efforts included multiple projects that were often not well coordinated with U.S. staff or recipient officials in the region. However, AID has since consolidated the number of activities and strengthened the role of its field staff in coordinating and monitoring the program. AID and EPA have also made substantial progress in addressing the initial coordination problems by assigning EPA the responsibility for working with the region's national environment ministries and by jointly developing environmental strategies for each country in the region.

Principal Findings

Environmental Institutions in Formative Stages

Recognizing the need for stronger environmental institutions, the new governments in Poland, Hungary, and the Czech Republic have all initiated

legislative reforms and have started to revise environmental standards along the lines of those in Western countries. Poland and the Czech Republic have increased fees and fines to encourage compliance with the new standards. Also, all three countries have established revenue-generating mechanisms to finance part of their environmental improvements. In addition, Poland created an innovative "debt-for-environment swap," whereby bilateral creditors have forgiven part of Poland's debt under the stipulation that the funds be used for environmental improvements.

Nevertheless, the three countries continue to face serious barriers in developing their environmental institutions. One constraint has been the absence of effective public participation through nongovernmental organizations, which in Western countries have been instrumental in elevating the priority of environmental issues. Additionally, these three countries are just beginning to develop practical and comprehensive environmental laws. Another barrier is the unwillingness of these governments to incur additional debt specifically to finance environmental projects.

Evolution of U.S. and International Assistance

Given the region's vast environmental problems and limited funds available to address them, donor and recipient countries have attempted to better focus and coordinate what had been a piecemeal approach toward providing assistance. In 1993, these countries adopted a short-term strategy, referred to as the Environmental Action Programme for Central and Eastern Europe. The Programme defines the international community's role as one that supports policy and institutional reform and helps to obtain financing for important environmental projects.

The U.S. assistance program has been modified in scope to parallel these international efforts. In 1989, U.S. assistance funded a few isolated projects, such as the Regional Environment Center, in Budapest, Hungary, which provides grants, serves as an information resource and clearinghouse, and sponsors discussion forums. However, since 1990, AID has sought primarily to reform the region's environmental policy and institutions, increase the efficiency of the public sector in protecting the environment, and expand the private sector's environmental services. It has provided 63 program activities through contracts, grants, and interagency agreements. As the largest recipient of AID funds, EPA has received 52 percent of the environmental funds provided to service

providers and has been responsible for conducting many of these environmental activities.

In cooperation with the international donor community, the United States has recently begun to supplement its efforts to reform the region's environmental policy and institutions by responding to the region's request for financing environmental projects that will lead to tangible environmental improvements. In particular, AID and EPA are participating in international efforts to help Central and East European countries establish investment priorities and to obtain the capital needed to address the most serious environmental problems.

Increased Coordination and Cooperation in Program Management

To provide support to the region quickly, AID initially accelerated its traditional process for designing and implementing assistance programs. This expedited approach, however, led to projects that were often poorly coordinated and in some cases duplicative. In addition, early evaluations of the Regional Environmental Center cited as significant weaknesses the organization's lack of clear administrative policies, an overly ambitious charter, and an inability to set priorities.

AID has subsequently improved program management by reducing the number of environmental activities in the region and focusing its efforts on fewer geographical regions in each country. AID has also expanded the role of its field staff to include greater responsibilities for planning and oversight. The Regional Environmental Center, for its part, has corrected its significant weaknesses.

Recommendations

This report contains no recommendations.

Agency Comments

AID, EPA, and the State Department reviewed and provided written comments on a draft of this report. AID said the report is accurate, balanced, and thorough, and agreed with the report's conclusions. EPA said the report accurately describes the complex interrelationships involved in providing environmental assistance to Central and Eastern Europe. Both also provided technical clarifications, which we incorporated where appropriate. The State Department asked only that we clarify its rationale for assigning lower funding priority to its early environmental assistance, and we have done so in chapter 3. The agencies' comments have been included in appendixes III, IV, and V.

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Abbreviations

AID	Agency for International Development
EBRD	European Bank for Reconstruction and Development
EPA	Environmental Protection Agency
G-24	Group of 24
NGO	nongovernmental organization
NOx	nitrogen oxide
OECD	Organization for Economic Cooperation and Development
REC	Regional Environmental Center
SEED	Support for East European Democracy

Introduction

Serious environmental degradation exists throughout Central and Eastern Europe.¹ The region's large metallurgical and chemical industries, heavy use of poor-quality coal, and limited treatment of municipal and industrial waste have all contributed to air, water, and soil pollution. To a large extent, these environmental problems are the legacy of communist governments' policies that promoted heavy industries, such as those relying on metallurgy, and discouraged conservation by setting the prices of natural resources below market levels. While the extent of pollution varies across the region, certain areas have suffered extreme environmental damage with accompanying health problems and reductions in productivity.

In an effort to address these environmental problems, the United States, along with other international donors, has committed portions of its foreign assistance to environmental protection. Between fiscal years 1990 and 1993, the United States, like other donors, directed about 7.5 percent of its assistance for the region to environmental activities. The U.S. Department of State, the U.S. Environmental Protection Agency (EPA), and the Agency for International Development (AID)² administer the United States' environmental assistance program.

Environmental Conditions Pose Significant Problems for Central and Eastern Europe

While the region is not polluted uniformly, the levels of air, water, and soil pollution are all dangerously high in certain areas of Central and Eastern Europe. In those areas, pollution problems are associated with higher infant mortality rates and other significant health problems. In addition to reducing productivity, poor environmental conditions have also slowed progress in instituting economic reforms. Concerns about the lack of an environmental infrastructure, liability for past environmental damage, and potentially large cleanup costs have deterred foreign investors from doing business in the region.

Environmental Conditions Are Serious

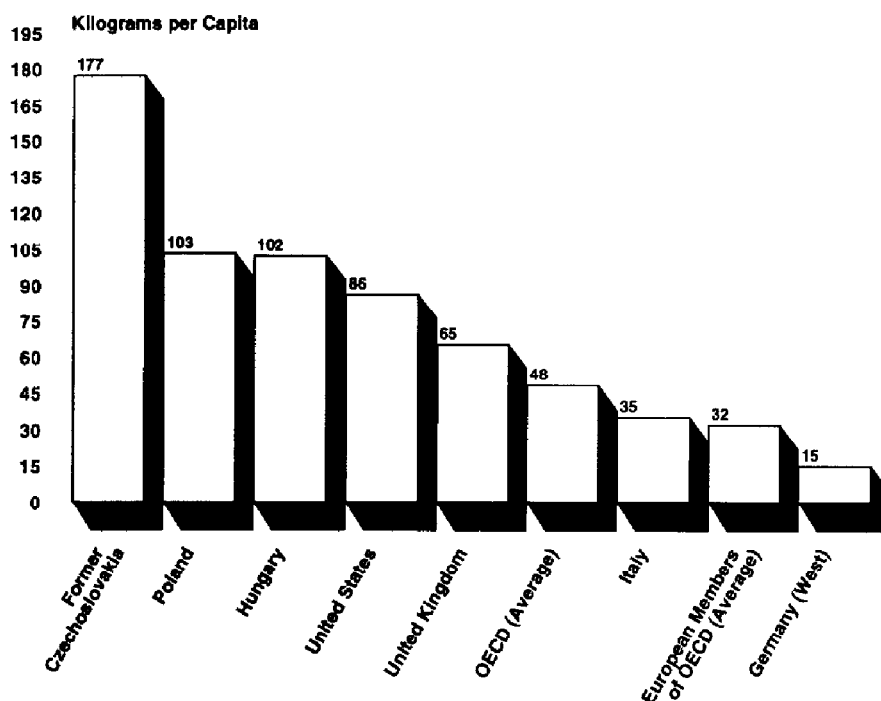
Air pollution is a major environmental problem in Central and Eastern Europe. While limitations in the available data make detailed international comparisons difficult, the data for 1989 show that sulfur dioxide emissions per person are significantly higher in Poland, Hungary, and the former

¹In this report, the term "Central and Eastern Europe" refers to Albania, Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia, the Baltic states (Latvia, Lithuania, and Estonia), and the former republics of Yugoslavia. Czechoslovakia separated into two countries, the Czech Republic and Slovakia, on Jan. 1, 1993.

²AID is a semiautonomous agency under the general policy direction of the State Department.

Czechoslovakia than the average emitted by Western countries (see fig. 1.1).³ Many power plants and industries have relied on coal with a high content of sulfur and ash to meet their energy requirements and have invested little in pollution abatement equipment. As a result, their sulfur dioxide emissions and particulate levels are high relative to those of comparable facilities in the West.

Figure 1.1: Sulfur Dioxide Emissions in Selected Central and East European and Western Countries, 1989



Note: The members of the Organization for Economic Cooperation and Development are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

Source: Organization for Economic Cooperation and Development.

³Sulfur dioxide emissions come predominantly from industrial sources and utilities and are a major cause of acid rain.

Nitrogen oxide (NO_x) emissions are also high in parts of the region.⁴ Emission levels are particularly high in the former Czechoslovakia, which produced 60.7 kilograms per capita in NO_x emissions in 1989. Poland and Hungary produced 39.0 and 23.5 kilograms per capita, respectively, in 1989. Increasing traffic is likely to cause these emissions to rise as more people buy private cars and road freight increases. Few people can afford to buy cars with pollution abatement technology, and Central and East European countries are just starting to require such controls. In comparison to the NO_x emissions from the former Czechoslovakia, Poland, and Hungary, those from West European countries averaged 29.5 kilograms per capita in 1989.

Water pollution in the region has also been significant. About 70 percent of the waterways in the former Czechoslovakia are heavily polluted. About 40 percent of Poland's waterways are so contaminated that they cannot be used even for industrial purposes. In coal-mining regions, highly saline wastewater discharged directly into surface waters is a major pollutant. Nitrogenous fertilizers in the agricultural sector are also responsible for damaging rivers, lakes, and coastal waters. Groundwater is contaminated by pesticides, arsenic, heavy metals, and nitrates. The waste discharged from industrial and municipal areas is often not treated adequately, if at all. For example, during the 1980s, only 50 percent of Poland's wastewater was treated, and at least a third of the sewage continues to be discharged without any treatment.

Finally, waste disposal has also been a serious environmental concern. According to the Organization for Economic Cooperation and Development (OECD), the amount of industrial waste per unit of gross domestic product is higher in the region than in OECD countries.⁵ Furthermore, a significant proportion of the industrial hazardous wastes is believed to be disposed of at municipal landfills that are unlined and thus do not adequately protect against seepage into the groundwater. Former Soviet military bases are thought to be particularly dangerous sources of toxic wastes.

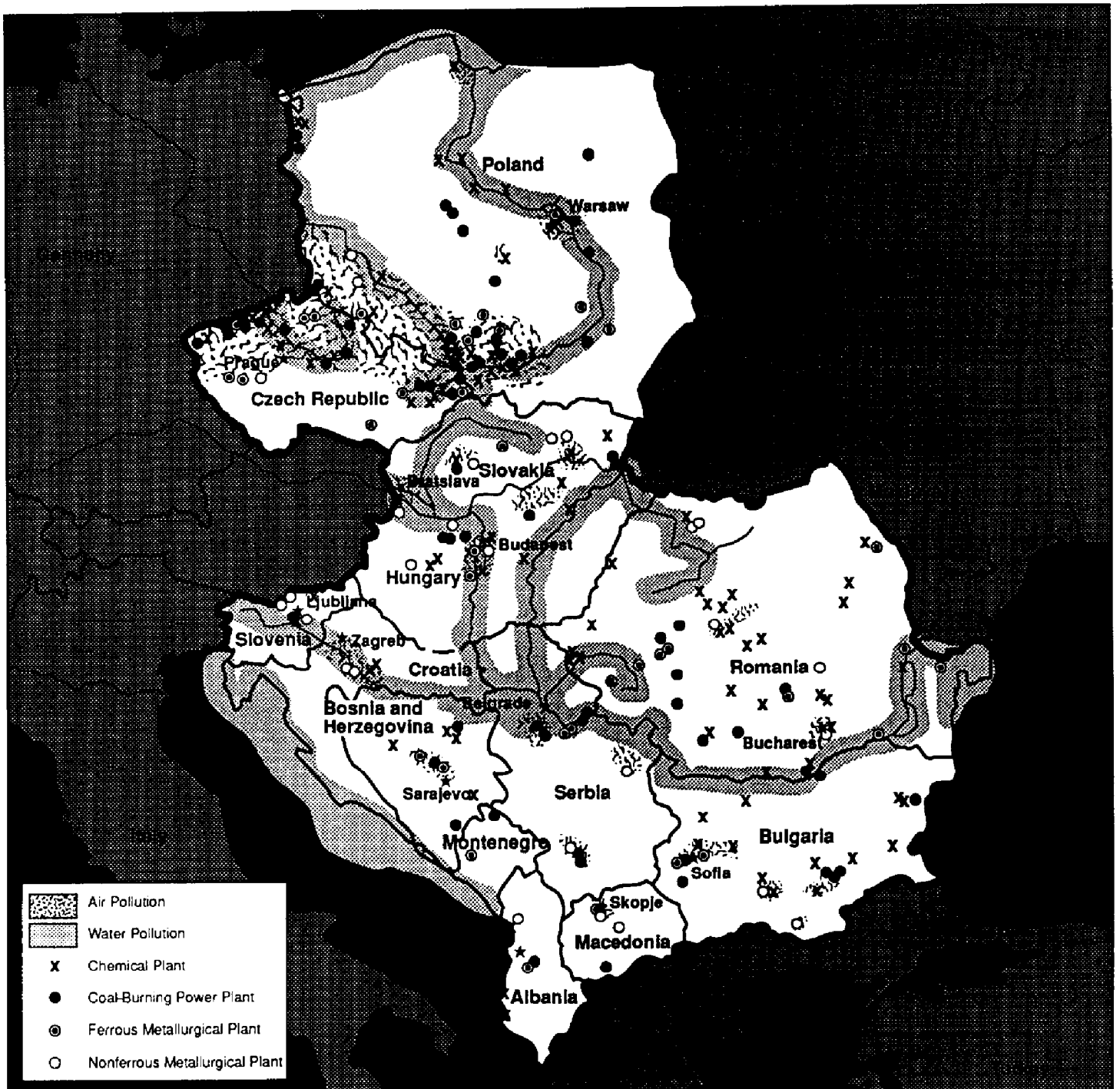
Pollution problems are particularly acute in a few geographical areas in the region. The major environmental hot spots are in the "black triangle" at the border of the former East Germany, the Czech Republic and Poland, as

⁴NO_x emissions come predominantly from road traffic and, to a lesser extent, from power plants and industrial sources.

⁵OECD's mission is to achieve high economic growth and development and financial stability for member nations and, thus, to contribute to the development of the world economy.

well as in the Upper Silesia region on the border of Poland and the Czech Republic (see fig. 1.2). High concentrations of industry and coal-burning power plants have led to serious environmental damage in these areas. Other local hot spots exist within each of the countries as well.

Figure 1.2: Pollution in Central and Eastern Europe



(Figure notes on next page)

Note: Figure does not include the Baltic states.

Source: Based on a map by the Central Intelligence Agency.

The region's environmental conditions are largely a result of economic policies pursued by communist governments after World War II. During this period, Central and East European countries emphasized rapid growth through heavy industries—particularly those producing chemicals and metals—which tend to be heavy polluters. By comparison, Western economies gradually reduced their industrial sectors and now rely more on light industry and services. In OECD countries, services constitute about 55 percent of the economic activity, while they constitute only about 35 percent in a typical Central and East European country.⁶ Furthermore, communist governments' policies emphasized production quotas over environmental protection, so pollution controls and water treatment facilities were generally absent or underused.

The region's policies regarding natural resources also contributed to environmental degradation. Because governments generally priced natural resources below international market rates, industry had little incentive to update production technologies to improve efficiency. The Czech Republic, Hungary, and Poland, for example, each used between 4 and 8 times more energy per unit of gross domestic product than OECD countries on average in 1990.

Environmental Conditions Harm Human Health and Productivity

Environmental problems have harmed human health and reduced productivity in the region. But because health data for the region are incomplete and do not control for factors such as smoking and diet, it is difficult to determine the extent to which the region's physical environment has contributed overall to the reduced life expectancy and higher mortality rates there.

Stronger evidence exists, however, to show that certain types of pollution have been linked to specific health problems. An analysis prepared by the World Bank in conjunction with AID and EPA cites a number of prevalent health problems generally resulting from exposure to airborne dust, sulfur

⁶Hungary, a notable exception to this trend, already has a large services sector.

dioxide and other gases, lead in air and soil, and nitrates in water.⁷ The government practice of clustering several industries close together and moving workers into those areas intensified the health effects because more people were exposed to dangerously high emission levels. According to the study, the most prevalent and significant problems in the region include the following:

- High infant mortality and high mortality from lung cancer, both resulting from air pollution. In southern Poland and regions of the Czech Republic, high levels of dust have contributed to increased infant mortality rates. Southern Poland has also reported increased lung cancer rates among adults from exposure to steel mills' emissions.
- Abnormal physiological development associated with air pollution. In the Czech Republic, for example, the number of children born at low birth weights increases in regions with the highest levels of dust and sulfur dioxide. Northern Bohemia has also reported increased rates of congenital abnormalities.
- Chronic and acute respiratory diseases, such as emphysema and bronchitis, caused by air pollution. These diseases are particularly a problem where there are high levels of particulates and sulfur dioxide. Poland has documented increased rates of asthma and chronic bronchitis in polluted areas throughout the country.
- Children's overexposure to lead from air pollution and soil contamination. Bulgaria, the Czech Republic, Hungary, Poland, and Romania have reported neurobehavioral deficits among the large number of children exposed to high levels of lead.
- Methemoglobinemia, a form of chemical asphyxia in which the blood cannot carry oxygen, which affects newborns. Caused by nitrates in the drinking water, this problem is widespread in Slovakia and Romania and parts of Hungary and Bulgaria.

In addition to threatening human health, environmental conditions have also had a negative impact on the region's productive capacity in other ways. For example, air pollution has damaged forests and reduced yields of timber in several countries. In addition, several areas have suffered agricultural losses because of pollution. For example, factories and power plants in Romania discharging large amounts of dust have caused up to 20 percent of the fruit harvest in some areas to be lost and up to 30 percent

⁷See *Health and Environment in Central and Eastern Europe*, particularly annex 5, *Summary of Human Health Problems in Bulgaria, Czechoslovakia, Hungary, Poland, Latvia, Lithuania, Estonia, Romania, Byelarus, Ukraine, and European Russia*, prepared for the Environment for Europe Conference in Lucerne, Switzerland, Apr. 1993.

for other crops. In southern Poland, heavy metals have seriously contaminated agricultural produce.

Variations in the quantity and quality of the available environmental data make it difficult to estimate the total cost to clean up the region. However, experts agree that costs are high. In Poland alone, for example, the World Bank projects that the cost of applying revised Polish emissions standards to existing thermal power plants ranges from \$3 billion to \$9.7 billion. In addition, the World Bank estimates that Poland's environmental damage reduced the gross domestic product by 2.5 to 4 percent annually during the mid-1980s, an amount 2 to 3 times higher than in West European nations.

Environmental Problems Hinder Economic Transition

While environmental problems have contributed to past economic losses, they have also slowed the region's progress in instituting current economic reforms. Vague or nonexistent rules concerning who will pay for past environmental damage have discouraged foreign investment in the region. Multinational corporations report that environmental conditions and unresolved issues related to the attendant liability have raised the risks they factor into their investment decisions. In fact, according to a survey by the World Bank and OECD, liability for past environmental damage was a major deterrent to North American and European companies' investing in the region.⁸

Similarly, many Western companies have also raised concerns about their obligations to protect the environment. Because countries in the region are revising their environmental laws and regulations, current standards are uncertain. Furthermore, countries in the region historically have developed strict written standards but have made little effort to enforce them. Because these countries are strengthening their monitoring and enforcement systems along with revising their environmental regulations, it is difficult for potential investors to gauge future environmental requirements. Some Western companies have also indicated that inadequate water and sewer systems and inadequate infrastructures for disposing of solid and hazardous waste are also important impediments to investment in the region. Given these conditions, potential investors indicated in the survey that the risks associated with environmental issues are as important as those related to unstable economic reforms and exchange rates.

⁸Foreign Direct Investment and Environment in Central and Eastern Europe—A Survey, World Bank and OECD (Apr. 1994).

The United States and Other Donors Direct Assistance to the Environment

Since Central and Eastern Europe began political and economic reforms in 1989, the United States in conjunction with other major industrialized countries has provided foreign assistance specifically to address the region's pressing environmental problems. Of the \$745 million in international environmental assistance committed to the region through 1992, about 10 percent came from the United States. While international help has played an important role in directing the region's attention to environmental issues, it constitutes a relatively small amount of the region's total environmental expenditures and total estimated needs.

International Assistance

While most international assistance programs for Central and Eastern Europe have included economic restructuring and privatization, the United States and many other donors have directed some funds specifically to the environment. As of December 1992, approximately 7 percent of the international assistance to the region supported environmental activities.⁹ In July 1989, the Group of 24 (G-24)¹⁰ designated the European Commission—the executive arm of the European Union¹¹—to coordinate all foreign assistance provided to the region, including environmental assistance. Between January 1990 and December 1992, the G-24 countries had committed approximately \$745 million in bilateral environmental assistance, as shown in table 1.1. Of these contributions, the European Commission's was the largest, totaling almost \$260 million (35 percent of all international assistance). Denmark's was the second largest, at \$138 million (18 percent), and the United States' was third, at \$71 million (10 percent).

⁹This figure includes only funds designated specifically for environmental purposes. It does not include support for energy programs or the Trade and Development program, which also contribute to environmental improvements.

¹⁰The G-24 is composed of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

¹¹When the Maastricht Treaty on European Union entered into force on Nov. 1, 1993, the European Community became the European Union.

Table 1.1: Bilateral Environmental Assistance Commitments to Central and East European Countries, Jan. 1, 1990, Through Dec. 31, 1992

Dollars in millions		
Donor	Commitments	Percentage of total
European Commission	\$258.95	35
Denmark	137.55	18
United States	71.26	10
Sweden	68.25	9
Austria	48.85	7
Finland	36.66	5
Italy	31.45	4
Other European Union member states	21.28	3
Germany	21.15	3
Japan	2.77	<1
Others	47.05	6
Total	\$745.22	100%^a

Notes: The figures are based on information provided by the G-24 donors.

Members of the European Union provide assistance to the region through the European Commission in addition to their own direct commitments. The figures for European Union members represent the countries' direct bilateral assistance. The assistance provided through the European Commission is separate.

^aColumn does not add to 100 percent because of rounding.

Source: G-24 Scoreboard (1st Quarter 1990 to 4th Quarter 1992), European Commission Directorate-General for External Relations (May 1993).

Countries in the northern tier of Central and Eastern Europe—the former Czechoslovakia, Hungary, and Poland—were among the first to initiate political and economic reforms and receive any international support. As a result, they have been the largest beneficiaries of environmental assistance. Poland, the largest recipient, began receiving assistance in 1990 and had bilateral commitments amounting to \$223 million through December 1992 (see table 1.2). In comparison, the southern-tier countries—Albania, Bulgaria, and Romania—and the Baltic states began receiving international assistance later and have received relatively smaller portions.

Table 1.2: Bilateral Environmental Assistance Received by Central and East European Countries, Jan. 1, 1990, Through Dec. 31, 1992

Dollars in millions		
Recipient	Amount committed	Percentage of total
Region	\$244.13	33
Poland	223.23	30
Czechoslovakia	119.20	16
Hungary	88.81	12
Bulgaria	32.53	4
Baltic states	23.39	3
Romania	10.27	1
Former Yugoslav Republics	3.33	<1
Albania	0.33	<1
Total	\$745.22	100%

Note: The figures are based on information provided by the G-24 donors.

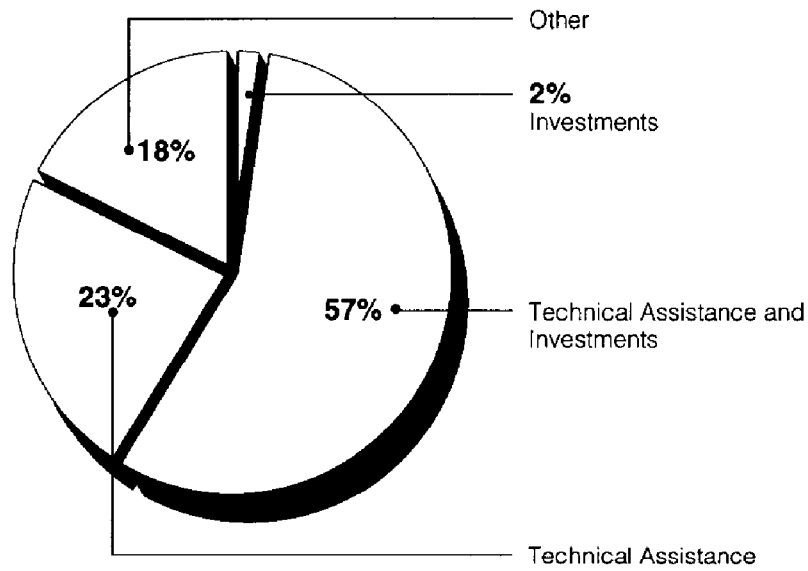
*Column does not add to 100 percent because of rounding.

Source: G-24 Scoreboard (1st Quarter 1990 to 4th Quarter 1992), European Commission Directorate-General for External Relations (May 1993).

Donor countries are also providing environmental assistance multilaterally through international financial institutions, such as the World Bank and the European Bank for Reconstruction and Development (EBRD). As of December 1992, international financial institutions had committed about \$287 million to the region for environmental activities.

According to the European Commission, most environmental assistance—including bilateral and multilateral—has been used to support “sector aid,” which is defined as aid to projects that provide both technical assistance and any necessary equipment or supplies. These projects accounted for approximately 57 percent of the international assistance, as shown below in figure 1.3. Projects involving only technical assistance accounted for approximately 23 percent, while investments alone received 2 percent.

Figure 1.3: G-24's Environmental Assistance Commitments, by Type



Note: Training constitutes approximately 1 percent of technical assistance.

Source: G-24 Scoreboard (1st Quarter 1990 to 4th Quarter 1992), European Commission Directorate-General for External Relations (May 1993).

U.S. Assistance Program

The United States established its environmental assistance program through the Support for East European Democracy (SEED) Act of 1989 (P.L. 101-179) and continued its funding with subsequent foreign assistance appropriations. The United States directed over \$1.2 billion in foreign assistance to the region between fiscal years 1990 and 1993. Like other donors, the United States committed approximately 7.5 percent (\$91.4 million) of this assistance toward the environment.

The U.S. Department of State is the lead agency responsible for coordinating U.S. assistance of all types in Central and Eastern Europe and for coordinating activities among federal agencies. The State Department, EPA, and AID have shared the administrative responsibility for the United States' environmental program. In 1989, the SEED Act gave EPA the responsibility for designing and carrying out several environmental initiatives in Poland and Hungary, including the Regional Environmental Center (REC), located in Budapest. The REC was established to promote cooperation among environmental groups in addressing the region's

problems and build public participation into decision-making about the environment.

However, in the 1991 Foreign Operations, Export Financing, and Related Programs Appropriations Act (P.L. 101-513), the Congress shifted administrative authority for all assistance to AID, including environmental activities, in an effort to ensure that all activities were consistent with the United States' policy on assistance for the region. Although EPA still carried out some environmental projects in Central and Eastern Europe, AID initiated several others and became the lead agency responsible for all environmental activities. The State Department continued to coordinate all U.S. assistance efforts.

As an element of the United States' assistance program in Central and Eastern Europe, the environmental program has been subject to the same program development requirements as all U.S. assistance to the region. Consistent with the general policy for U.S. assistance, the environmental program focuses primarily on providing technical assistance and training rather than significant capital projects. As prior GAO reports have pointed out, U.S. assistance to Central and Eastern Europe has suffered from numerous management problems. The reports showed that the State Department's decision to retain in Washington, D.C., the authority for managing the program rather than delegate it to missions in the recipient countries—which is AID's traditional practice—created many of these problems. (A list of related GAO reports appears at the end of this report.)

Objectives, Scope, and Methodology

The Chairman of the House Committee on Energy and Commerce requested that we examine the United States' environmental assistance program in Central and Eastern Europe. Specifically, he asked us to (1) describe the region's institutional capacity for addressing environmental problems, (2) describe the uses of U.S. assistance, and (3) identify any problems in developing and implementing the program. He expressed particular interest in the operation of the Regional Environmental Center and the division of the program's administration between AID and EPA.

Overall, we limited our review to AID's projects that have environmental protection as their primary purpose and make up AID's formally designated environmental program for Central and Eastern Europe. We reviewed the State Department's, AID's, and EPA's work done in Washington, D.C., to plan and implement the United States' environmental assistance program and

reviewed the program as implemented in three Central and East European countries—the Czech Republic,¹² Hungary, and Poland. We selected these three countries because they were the earliest recipients of assistance and, thus, have been beneficiaries of the program longer than other countries in the region. They also received over 50 percent of the U.S. environmental assistance obligated between fiscal years 1990 and 1993.

To address the first objective, describing the region's institutional capacity to address environmental problems, we interviewed officials from ministries, local governments, and nongovernmental organizations (NGO) in the three countries visited, as well as officials from the State Department, AID, and EPA. We also reviewed reports from various international organizations, such as OECD, the World Bank, the United Nations Economic Commission for Europe, and the EBRD, as well as other pertinent literature. To provide perspective on the development of the environmental institutions in Poland, Hungary, and the Czech Republic, we have presented comparable information about environmental institutions in the United States.

To address the second and third objectives, describing the uses of U.S. environmental assistance and identifying any problems in developing and implementing this assistance, we reviewed AID's plans and strategies for the environmental program, numerous contracts and interagency agreements for environmental assistance activities, and related progress reports. We met with AID and EPA officials—both in the United States and in the field—to discuss how the program was developed and why particular projects were selected, and we interviewed AID project representatives to determine the status of their efforts. We also met with officials from the State Department, AID, and EPA to determine how the allocations for the environmental program were made.

In addition, we reviewed the status of the environmental program in the three countries we visited. We met with AID representatives, project contractors, ministry and local government officials, and NGO representatives and visited several major environmental projects. In Hungary, we visited the REC and held meetings with both management and staff. In Krakow, Poland, we discussed air monitoring and water quality projects with local government officials. Also, in the Czech Republic, we discussed the environmental assistance with national and local government officials.

¹²Though we have relied on information about the former Czechoslovakia when describing conditions prior to the separation of the Czech Republic and Slovakia, we have reviewed the environmental program in the Czech Republic.

We reviewed prior GAO reports, AID Inspector General reports, and other external program evaluations. We also obtained AID's internal reviews of individual environmental projects as well as the program overall. With AID and EPA officials and project contractors in the United States, we discussed problems in developing and implementing the United States' program. We also discussed these problems with AID representatives, project contractors, government officials, and NGO representatives in the three countries we reviewed.

Although the data about the region's environmental quality and institutional conditions differ significantly by country, we present the available data in chapters 1 and 2. However, comparing these data across countries should be done cautiously because the sources and methods behind the data vary. In addition, the commitments of international assistance in chapter 1 are based on information reported to the European Commission by individual donors and have not been independently verified.

We performed our work between August 1992 and April 1994 in accordance with generally accepted government auditing standards. The State Department, AID, and EPA have reviewed a draft of this report, and we have incorporated their comments as appropriate. Their comments are included in appendixes III, IV, and V.

Environmental Institutions Are Under Reform

Improving the region's environment will require reforms in both the private and public sectors. In the private sector, industrial restructuring, along with the accompanying private investment in new production technologies, will automatically bring some environmental improvements. Specifically, the region's services sector is expected to expand and heavy polluters such as the iron, steel, and paper industries will decrease in number; they already constitute a smaller share of the industrial sector.

Nevertheless, changes in the public sector are essential to ensure that environmental improvements are made. Since political and economic reforms began in 1989, the new governments of Poland, Hungary, and the Czech Republic have taken various steps to build and strengthen the kind of institutions needed to protect the environment that are in place in the United States and other Western countries. Some of the elements considered critical to establishing a framework to protect the environment, as identified by OECD and the authors of the Environmental Action Programme for Central and Eastern Europe,¹ are (1) processes for public participation in making environmental policy decisions, (2) a legal and policy framework for the environment, (3) provisions for compliance monitoring of polluters and the enforcement of environmental laws, and (4) the financial tools needed to construct wastewater treatment facilities and other aspects of the environmental infrastructure. Despite some progress, environmental institutions in these countries are still relatively weak and face significant challenges.

Public Interest in Environmental Issues Is Limited

In the United States and other Western countries, the public may be involved in environmental protection in several ways. Environmental hazards are frequently brought to the attention of the government by public interest groups and by individual citizens. Public interest groups in particular have also influenced environmental legislation and administrative rulemaking; heightened public awareness through demonstrations, media campaigns, and other means; and dramatically affected environmental law through legal challenges in the judicial system. The United States has hundreds of public advocacy groups for environmental concerns.

While environmental problems have long been a key public concern in Poland, Hungary, and the former Czechoslovakia, before political reforms began in 1989 few mechanisms existed for the public to influence the

¹The Programme is a short-term strategy for the region that identifies the international community's role as supporting policy and institutional reform and helping to obtain financing for important environmental projects.

governments' decisions affecting the environment. NGOs were among the few interest groups tolerated by the communist governments, but these organizations had limited or no access to information on environmental degradation or the governments' activities that contributed to these problems. Furthermore, the governments did not allow the public to review and comment on proposed environmental regulations and policies. Poland did introduce during the 1980s a requirement for environmental impact assessments, but guidance for the provision was vague, and, therefore, it was rarely followed.

With the region's transition to democracy, public access to environmental information is increasing, and mechanisms for public participation are improving. However, concern about the environment relative to other issues has decreased in Poland, Hungary, and the Czech Republic. For example, a 1990 survey showed that 83 percent of Czech citizens identified environmental protection issues as the number one concern for the government to address, but in a November 1991 survey, only 14 percent identified environmental issues as the most pressing problem.

Although a March 1993 survey showed that environmental problems were resurfacing as one of Czech citizens' primary concerns, in each of the countries we visited, the government placed a higher priority on economic and social problems than on environmental issues. In fact, the new governments have identified economic restructuring and the privatization of state-owned enterprises as two of their primary goals. Regional officials told us that citizens have been more concerned with the economic and social hardships of day-to-day living, such as unemployment and inflation, than with environmental protection. While some environmental activism has continued, it tends to take place at the local level and to address specific local problems, as opposed to broader national policy issues.

Further contributing to the declining support for environmental activism has been the loss of leadership among key NGOs. Since environmental NGOs were one of the few organizations that the communist states permitted to hold formal meetings, they tended to attract activists interested in all aspects of governmental reform. As a result, when these governments became democratic, many leaders of environmental NGOs accepted positions in government, leaving a vacuum in the leadership of the environmental NGO community.

Legal and Policy Framework Is Under Revision

Environmental laws to control pollution, along with policies to determine the direction of environmental protection, are fundamental environmental institutions. Environmental laws under communist regimes often set impractical standards. But in Poland, Hungary, and the Czech Republic, environmental laws and policies are being expanded and revised to manage pollution more effectively. In addition, the Czech Republic is addressing the need for a new body of legislation that defines who is liable for correcting past environmental damages when facilities are privatized.

Environmental Laws Are Being Revised

The United States governs environmental protection through several major statutes, each dedicated to a specific medium such as air or water. These laws establish, among other things, limits on the types and amounts of pollutants a facility can emit, procedures for obtaining permits to pollute, and penalties for facilities that violate environmental regulations. Although environmental laws in the United States have antecedents dating back to the 1940s, most of its current environmental laws were developed in the 1970s.

Poland, Hungary, and the former Czechoslovakia also began passing media-specific environmental laws and regulations in the 1960s and 1970s. Each of the three countries established standards for water and air pollutants and instituted a system of user fees for pollution emissions and penalties to enforce the standards. However, the standards established were often impracticable and far exceeded Western standards. As an example, the former Czechoslovakia's standard for annual sulfur dioxide concentrations was twice as stringent as the United States'. To meet the three countries' standards, ministry officials explained, facilities often would have had to invest heavily in pollution abatement equipment or to cease production. Under the communist governments, the choice frequently was to ignore the strict standards.

Since 1989, the new governments of Poland, Hungary, and the Czech Republic have begun to institute legislative and policy reforms. The efforts include the revision of previous legislation, introduction of new legislation, and development of draft environmental policies and strategies. Standards in Poland and the Czech Republic have been established or revised to reflect those of the European Union and Western countries and will be adopted incrementally as the necessary funding becomes available. In addition, Poland and the Czech Republic passed legislation providing for gradually increasing fees for pollution and fines for noncompliance, which make polluting more costly. In Hungary, legislators have developed one

unified environmental statute, which, once approved, will regulate all media. Table 2.1 identifies some of the fundamental environmental legislation in each country.

Table 2.1: Selected Environmental Legislation in the Czech Republic, Hungary, and Poland

Country	Legislation		
	Enacted before 1989	Revised	Enacted 1989-92
Czech Republic	Forestry Act (1960)	Clean Air Act (1991)	Environmental Protection Act (1991)
	Air Purity Law (1967)	Forest Protection Act (1991)	Waste Management Act (1991)
	Water Act (1973)	Agricultural Land Protection Act (1992)	Environment Fund Act (1992)
	Agricultural Land Protection Act (1976)		Protection of Nature and the Landscape Act (1992)
	Land Use Planning and Building Order (1976)		Environmental Impact Assessment Act (1992)
	Protection and Use of Natural Resources (Mining Law) (1988)		
Hungary	Protection of Agricultural Land Act (1961)	Environmental Protection Act (pending approval)	
	Water Management Act (1964)		
	Act on the Protection of the Human Environment (1976)		
	Decree on Solid and Hazardous Waste Management (1981)		
Poland	Nature Protection Act (1949)	Air Pollution regulations (1990)	Law on Forested Areas (1991)
	Geology Act (1960)	Nature Protection Law (1991)	State Inspectorate for Environmental Protection Act (1991)
	Water Protection Against Pollution Act (1961)		
	Air Protection Against Pollution Act (1966)		
	Environmental Protection Act (1980)		
	Waste Regulation Act (1980)		
	Protection of Agriculture and Forests Act (1982)		
	Land Use Planning Act (1984)		

Establishing Environmental Liability Increases in Importance

In the United States, the major law dealing with the cleanup of hazardous waste sites places liability with the parties responsible for the environmental damage (current and former owners and operators, transporters, and generators). The U.S. government may require the responsible parties to carry out the cleanup or the government may pay for the cleanup and then identify and assess the polluters for the costs of remediation.

Under the communist governments of Central and Eastern Europe, however, environmental liability legislation did not exist because polluting facilities were owned by the state and the state carried the corresponding environmental responsibility. Since the revolution and the subsequent privatization of state-owned property, though, these countries need to define who will bear the responsibility for correcting past environmental damage. The assignment of liability identifies who will pay for the cleanup and reduces the uncertainty faced by foreign investors about this issue. According to regional officials, the uncertainty about whether or not an investor will be responsible for paying to clean up potentially substantial environmental damage is one of the biggest impediments identified by foreign investors.

In response to investors' concerns, the Czech Republic has enacted legislation dealing specifically with environmental liability. Resolution 123, passed in March 1993, further defines the 1992 Large-Scale Privatization Act and provides that new property owners assume the responsibility for remediation. Funds from the purchase of a facility are placed in the National Property Fund, and up to 100 percent of that amount can be used to finance the remediation. Neither Poland nor Hungary has a systematic method for addressing environmental liability. As of the spring 1993, both countries addressed the issue on a case-by-case basis as part of the negotiations in privatizing a facility. According to a Ministry of Privatization official in Poland, environmental liability has been an issue in 10 of 51 major transfers handled by the ministry. A Hungarian environment ministry official told us that foreign investors are typically conducting their own environmental audits and that in at least 20 privatization cases, the government has assumed liability for environmental damages.

Monitoring and Enforcement Capabilities Are Still Weak

Once environmental laws are established, governments must monitor facilities to ensure that they comply with the laws, and governments must be ready to enforce the laws when necessary. Poland, Hungary, and the former Czechoslovakia regulated pollution through a combination of fees for permitted emissions and fines for emissions exceeding permitted levels. However, these fees and fines were generally too low to provide the incentive to curb pollution. The new democratic governments have decentralized the responsibility for environmental enforcement to local governments, and these local governments are adjusting to their new roles. But until these issues are thoroughly addressed, many facilities may not be inspected and fees and fines may not be collected.

Fees and Fines Are Increasing to Encourage Compliance

In the United States, EPA and authorized state agencies issue facility permits that establish the maximum emissions allowed for each pollutant that facilities are likely to produce. To ensure compliance, these agencies may inspect facilities, review self-reported compliance data, penalize facilities, and, in some cases, order facilities to shut down until they comply with environmental laws. In limited cases, facilities are charged fees for polluting up to certain limits. The fees serve both to generate revenue and to deter pollution.

Under their communist governments, Poland, Hungary, and the former Czechoslovakia relied heavily on a system of user fees and fines to regulate pollution. The governments assessed fees on polluting facilities for emissions up to established emissions levels. Fines were levied for pollution exceeding permissible levels. But according to officials in the region, many facilities found it less expensive to pay the low fees and fines than to acquire the technology to reduce pollution. Further exacerbating this problem, state governments often granted state-owned enterprises and municipalities a privilege termed "exceptional permission," which waived fees and fines and allowed these enterprises and municipalities to disregard the established standards and incur no penalty. In the former Czechoslovakia, for example, approximately 2,500 waivers were provided to municipalities and enterprises for ongoing water pollution violations between 1973 and 1990.

Recognizing the limited effectiveness that minimal fees had on reducing pollution, the new governments in Poland and the Czech Republic have taken steps to increase user fees gradually. According to the World Bank, Poland's air pollution fines increased by 10 times in real terms between 1990 and 1992. The fees and fines are scheduled to continue to increase

through 1997, when the new standards will be completely in force. Similarly, in the Czech Republic, air pollution fees are scheduled to increase gradually through 1997. Hungary's fees, however, have remained low, and future increases are contingent on passage of the country's proposed comprehensive Environmental Protection Act.

The environmental officials interviewed from Poland, Hungary, and the Czech Republic hope the increased fees and fines will provide an incentive for facilities to reduce the pollution they produce. However, some officials note that the increased fees, along with the cost of purchasing pollution abatement equipment or changing production methods, might be so high that facilities would not find continued operation economically feasible. In Poland, the increased fees and fines have been a politically sensitive issue. For example, in 1992, pressure from local businesses over the increased fees caused the environment ministry to temporarily reduce the fees for polluting. However, facilities that had already invested in new equipment to offset the increased fees protested against this move, and the fees were reinstated in early 1993.

Meanwhile, the collection of fees and fines continues to be a problem. In Poland, for example, about half of all assessed fees were collected by the regional inspectorates in the first 6 months of 1991. In the Katowice region, one of Poland's most polluted areas, only 26 percent of all of the fees and fines related to ecology were collected in 1992. Inspectorate officials told us they have limited authority and lack the political support and resources needed to force facilities to pay the fees and fines or to force them to shut down. As a result, few facilities are actually closed for not complying with environmental laws and regulations.

Responsibility for Managing the Environment Shifts to Local Level

Another factor affecting monitoring and enforcing compliance with environmental laws is the devolution of these responsibilities to local governments. Under communism, the responsibility for managing the environment—as well as for managing the energy, transportation, and other sectors of government—rested primarily with the central government. The central government retained control over both regional budgets and environmental decisions. However, since the political reforms of the late 1980s, the responsibility for many programs, including those for the environment, has been decentralized to the regional and local levels.

In response to this decentralization, enforcement responsibilities are being realigned. For example, the Czech Republic is considering consolidating

the monitoring functions for the various environmental media (e.g., water, air, hazardous waste, forests) into one office at the regional level so that inspections under each program can concurrently consider each medium. In addition, Poland's State Inspectorate Office has discussed the establishment of a new level of government between the local and regional levels to assume some enforcement responsibilities.

Although local and regional governments have been given a greater role for managing the environment, they often lack the authority to raise the resources needed to perform their newly assigned monitoring and enforcement responsibilities. In many cases, taxes and tariffs are controlled by the central government. Inspectorate officials in the three countries we visited cited limited resources as one of their biggest barriers to effective enforcement.

Despite Some Progress, Financing Environmental Protection Remains a Key Impediment

To address the serious environmental degradation, the new governments of Poland and the Czech Republic are increasing the resources devoted to protecting the environment. Still, domestic funding through taxes and user fees is relatively limited. International loans from multilateral banks are not attractive to the region's governments because of their reluctance to take on more debt and the requirements of some multilateral lenders.

Domestic Sources Finance Most Environmental Activities

In the United States, over 60 percent of the cost of protecting the environment is paid by private facilities to comply with environmental standards. Local governments assess taxes and user fees to finance an additional 20 percent of the cost. The remaining expenses are paid by state and federal agencies and are also raised through taxes, user fees, and alternative financing sources such as revolving funds.

Funding for the environment in Poland, Hungary, and the Czech Republic comes from national and local governments' budgets, publicly and privately owned facilities meeting environmental standards, and fees and fines collected from those facilities. The governments in these three countries have used the fees and fines collected to establish state "environment funds." The largest amounts of funding for the environment in Poland and the Czech Republic come from this source and business enterprises. In Poland, for example, of the \$840 million spent on the environment in 1991, 40 percent came from the environment fund, 30 percent from business enterprises, 20 percent from local governments' budgets, and 5 percent from the national budget. Approximately 5 percent

was received from external sources such as international donors and international financing institutions.

While the environment funds in Poland, Hungary, and the Czech Republic offer a potentially effective approach for financing environmental projects, estimates indicate that even Poland—with the largest environment fund, amounting to over \$300 million in 1991—will meet only about 40 percent of its environmental priorities projected through 1995.

International Financing Has Been Difficult to Obtain

Approximately 5 percent of the environmental expenditures in the region are estimated to come from international donors or multilateral banks. In one successful example of obtaining international support for the environment, Poland negotiated an innovative “debt-for-environment swap,” requesting that Paris Club members forgive 10 percent of Poland’s debt on the condition that the funds be targeted to address transboundary pollution.² As of September 1993, only the United States and France had agreed to this provision. The United States has already forgiven more than \$6 million of debt, while France recently provided about \$220,000. While the additional funding did not increase total environmental resources significantly, according to Polish officials it did elevate the importance of environmental issues within the government.

For the most part, however, environment ministries in Poland, Hungary, and the Czech Republic have found it difficult to obtain loans from multilateral financial institutions because of restrictions placed by the lending institutions as well as constraints within the countries. As of June 1992, the World Bank had provided only two loans for environmental projects in the region. The organization approved a \$246 million energy/environmental project for the former Czechoslovakia, of which \$140 million was earmarked for equipment to desulfurize the flue gas of one major power plant, while \$70 million was used to reduce particulate emissions at several power plants in the heavily polluted Bohemia region. The World Bank also provided an \$18 million loan to Poland to support the reorganization of the environmental management sector and to provide a framework for coordinating international assistance. However, the World Bank has provided loans in other sectors, such as energy and agriculture, that have also benefited the environment.

²The Paris Club is a group of official bilateral creditors, such as the United States, France, Canada, and Austria, that helps indebted countries reschedule their debt. In Mar. 1991, the Paris Club agreed to reduce Poland’s obligations to bilateral creditors by 50 percent. The debt-for-environment swap involves another 10 percent.

As of December 1992, the EBRD had not provided any loans specifically for environmental purposes. However, the EBRD identified loans totaling about \$40 million for 48 of its 1991 and 1992 technical projects in Central and Eastern Europe as going to projects with a significant environmental component. For example, the EBRD has provided the region with approximately \$4 million in technical services including investment in and the management of programs related to the Danube River Basin.

Ministry and international financing officials in Poland, Hungary, and the Czech Republic identified several obstacles to obtaining loans for environmental projects. A high minimum amount of approximately \$6 million and relatively high interest rates have made loans from the EBRD somewhat unattractive. The minimum amount usually exceeds the cost of a locality's needs, and environmental projects typically are not lucrative enough to cover the bank's interest rates. The World Bank, although it has lower interest rates and no set minimum amount for loans, has generally been hesitant to finance environmental projects because they tend to be smaller but still carry the same administrative costs as other projects.

Because of uncertain economies and a reluctance to increase debt, the Central and East European governments have avoided additional borrowing for environmental projects. Environmental projects are also less appealing to borrowing governments in the region because these projects generally provide domestically sold services and therefore do not generate the hard currency needed to repay the loans. Furthermore, the governments are generally unwilling to assume the risk and guarantee loans for environmental projects because these investments typically do not offer high returns.

Conclusions

As Poland, Hungary, and the Czech Republic address their severe environmental degradation, they are starting to establish the capacity to manage their environmental problems. They have strengthened their environmental institutions with varying degrees of success:

- Public interest in environmental issues has waned since the political and economic reforms of 1989. The region is faced with the challenge of involving the public to participate in making environmental policy decisions, despite competing economic concerns.
- The countries' legal and policy framework for the environment has undergone notable changes since the political reforms of 1989. Each country is now working towards ensuring that the environmental controls

created are both practical and effective. But only the Czech Republic has legislation addressing the issue of environmental liability.

- Compliance monitoring and enforcement are not always strong enough to deter violations, detect them when they do occur, and penalize violators. Fees and fines are not consistently large enough to control pollution, and the roles and responsibilities of inspectors are still vague.
- Local and international financing for environmental activities continues to be problematic and alternative financing mechanisms are still in the early stages of development.

U.S. Program Evolves to Complement International Goals of Institution Building and Capital Investment

U.S. environmental assistance for Central and East European countries has evolved since its inception in 1990, as both donors and recipients have gained experience in how best to meet the region's environmental needs. Initially, U.S. efforts focused on specific demonstration projects to clean up the air and drinking water in one city and to establish a center in another city to promote democratic decision-making on environmental issues. Recognizing that international assistance will provide only a fraction of the region's environmental needs, the United States, in conjunction with other international donors, then focused its efforts on strengthening the region's own ability to make environmental improvements. These efforts sought to address many of the institutional weaknesses discussed in chapter 2. While maintaining its focus on institution building, the United States has more recently sought to help the region obtain financing for capital environmental improvements from international financial institutions.

International Community Develops Environmental Assistance Strategy

The role that donors from the international community have adopted has evolved from sharing information about their individual assistance programs to jointly developing an environmental assistance strategy for Central and Eastern Europe. Although the G-24 designated the European Commission as a clearinghouse for information on the group's assistance to the region, the Commission did not coordinate donors' efforts to ensure consistency and to identify gaps in the assistance. The G-24 also adopted the Environment Sector Strategy for Central and Eastern Europe, but the strategy did not provide an overall plan for environmental reform. Instead, it relied on the recipient governments to identify and prioritize their environmental needs. Recognizing the region's limited ability to evaluate its needs, starting in 1992 the World Bank in collaboration with AID and EPA published environmental strategies for Bulgaria, the former Czechoslovakia, and Romania, and separately the World Bank published reports for Albania, Hungary, and Poland.

An additional and significant international effort to coordinate the environmental assistance to Central and Eastern Europe was spurred by a series of conferences starting in 1991. Participants in these conferences have included environment ministers from Eastern and Western Europe and other donor countries, international organizations and institutions, and members of the NGO community. Prompted by a decision by the ministers at the Dobris Castle conference held in Prague during June 1991, the World Bank took the lead in preparing a short-term strategy and action plan for addressing environmental issues in Central and Eastern Europe.

The short-term strategy, referred to as the Environmental Action Programme for Central and Eastern Europe, was endorsed during the spring of 1993 by a conference of environment ministers in Lucerne, Switzerland. It provides a framework for establishing priorities for using the limited environmental funds available to Central and Eastern Europe. The Environmental Action Programme provides a three-part approach that includes reforming policies, strengthening institutions, and establishing investment priorities. Reforming policies involves revising and drafting both economic and environmental policies and addressing environmental liability during the privatization process. The task of strengthening institutions includes improving local and regional governments' capacity for financial management, increasing local participation, and emphasizing policy coordination. Establishing investment priorities involves targeting environmental projects that are "win-win"—that is, they provide environmental and financial benefits—and projects that address the most pressing health problems related to the environment. In addition to developing the Environmental Action Programme, the conference established a task force to coordinate policy and institutional reforms identified in the Environmental Action Programme and a committee to identify and help obtain financing for worthy environmental projects. A progress report on the program's implementation is expected to be presented at a 1995 ministerial conference in Bulgaria.

U.S. Assistance Shifts From Demonstration Projects to Institution Building

U.S. assistance for environmental protection in Central and Eastern Europe began in fiscal year 1990 with the Support for Eastern European Democracy (SEED) Act of 1989 and specified that the EPA establish an air quality monitoring network and improve both water quality and the availability of drinking water in Krakow, Poland. The act also directed EPA to establish and support a regional environmental center in Budapest, Hungary. Assistance after the SEED Act focused on strengthening the entire region's own capacity to manage its environment.

Early Efforts Funded Demonstration Projects in Poland and Hungary

The SEED Act authorized appropriations of \$10 million over 3 years to enable EPA to improve water quality and the availability of drinking water in Krakow, Poland; provide an air monitoring network for the same city; and develop what was later named the Regional Environmental Center (REC), in Budapest. Although funding was passed through AID, the SEED Act mandated that EPA design and carry out these demonstration projects.

The REC was opened in September 1990 with the mission of promoting democratic decision-making on environmental issues. Its three founders were the governments of the United States and Hungary and the European Commission. Several other governments have since joined, including those of Japan and many other European nations. To meet the needs of its constituents, the REC has focused on three core activities: (1) providing small grants to environmental NGOs, (2) coordinating task forces to address issues of particular interest to the region, and (3) serving as an information resource and clearinghouse. In 1992, the REC gave 89 grants totaling over \$635,000 for environmental projects and sponsored several task forces on environmental issues such as public participation in decision-making about the environment, market incentives for reducing pollution, and the development of environmental legislation.

The rest of the environmental assistance provided under the SEED Act focused on Krakow, Poland. EPA installed eight air monitoring stations there and provided training for their use, which began in November 1991. EPA has also supplied the city with equipment to upgrade two wastewater treatment plants and has prepared to deliver equipment for two drinking water treatment facilities. As with the air monitoring stations, EPA is providing the technical assistance necessary to operate the equipment as well as to establish a laboratory to serve the facilities.

Independent of the activities set out in the SEED Act, two other activities that AID sponsored cost \$800,000. In 1990, AID gave the World Environment Center \$700,000 to provide, to the region's governments and industry, advisors on environmental policy, training on reducing pollution, and information on environmental issues. AID also gave the World Wildlife Fund \$100,000 to provide training to environmental NGOs.

United States' Assistance Program Expands to Encompass Institution Building and More Countries

Unlike in 1990, the assistance for Central and Eastern Europe starting in 1991 was not governed by authorizing legislation spelling out what specific environmental projects the United States must fund. Instead, the Congress gave AID, through the State Department, the discretion to choose environmental activities to pursue.¹ Accordingly, interagency meetings in 1990 spurred an expansion of the U.S. role from conducting a few

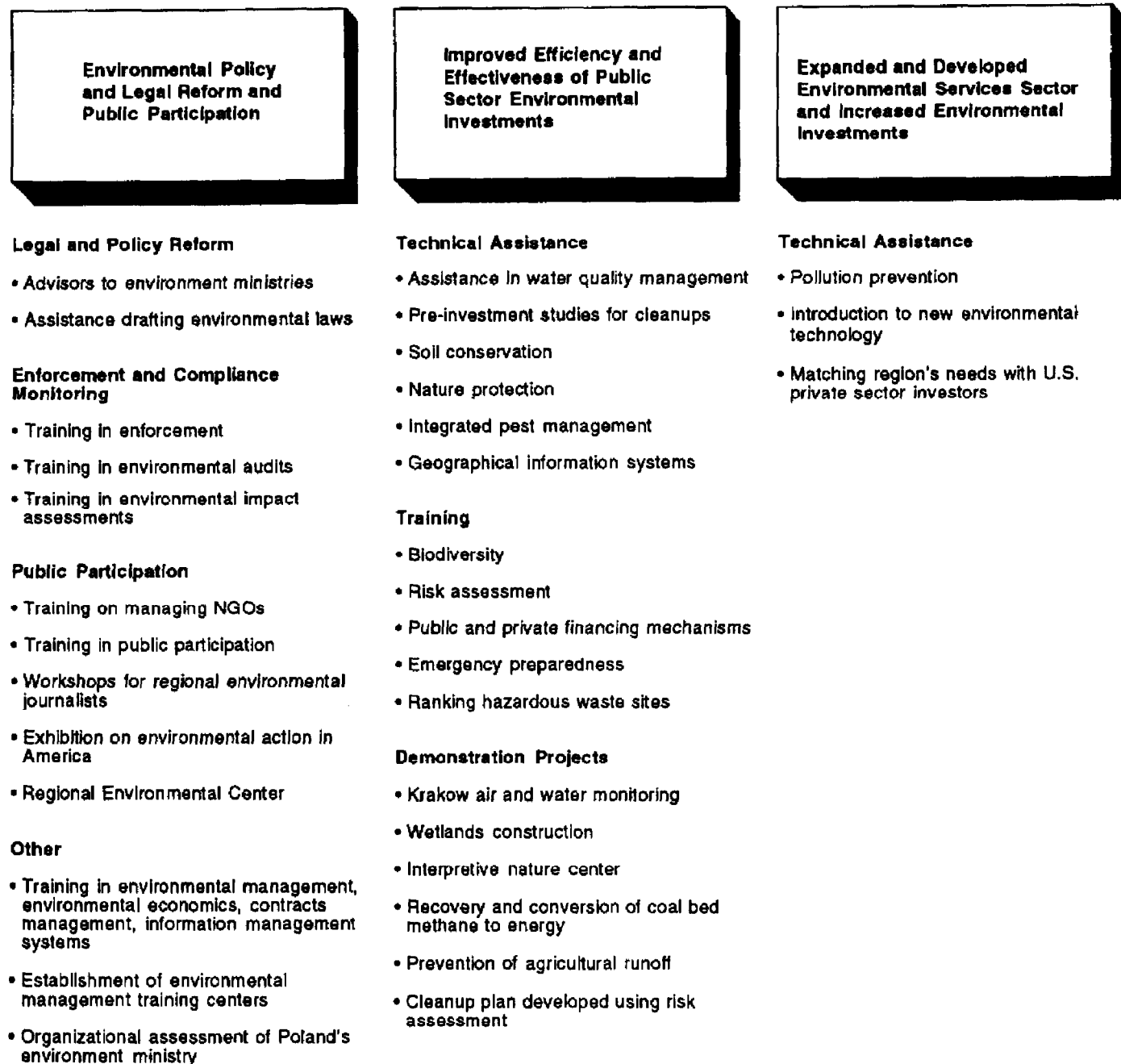
¹The Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1991 allocated \$75 million for energy and environmental projects in Central and Eastern Europe, specifying only that the environmental activities funded include "training, technical assistance for related energy and environmental investments or regulation, local production of environmental or energy-related equipment, promotion of United States technologies, and . . . [activities] dealing with health problems directly associated with pollution."

demonstration projects in two countries, as set out in the SEED Act, to building environmental institutions in the region as a whole. These meetings resulted in an environmental strategy for Central and Eastern Europe that shifted the emphasis away from direct remediation through demonstration projects and toward technical assistance and training. AID was responsible for choosing specific activities and contractors to carry out the strategy and for overseeing their work.

The AID-administered assistance program addresses three objectives. AID's first environmental objective in the region is to promote policy and legal reform in the environmental sector. For example, AID assists Central and East European countries in developing their own legal and policy framework and increasing public participation in policy decisions about the environment (as discussed in ch. 2). AID's second objective in the region is to improve the efficiency and effectiveness of the public sector's environmental investments. AID's objective in this case is to help the region's governments provide efficient and effective environmental services, such as wastewater treatment plants and landfills, by helping the national and municipal governments assess environmental risks and develop the mechanisms to address them. AID's third objective is to expand and develop the region's environmental services sector and increase environmental investments. Here, AID has focused on improving the private sector's efficiency in producing goods, preventing pollution, and developing business and financial skills as they relate to the environment.

AID's Environment and Natural Resources Division, within the Bureau for Europe, selects and oversees all of the program's activities. As shown in figure 3.1, AID's program is made up of 63 activities that support the agency's three environmental objectives in the region. A full description of each provider's activities, the length of the contract, and its funding is included in appendix I. A description of EPA's activities, funded by AID, is in appendix II.

Figure 3.1: AID's Environmental Objectives and Activities in Central and Eastern Europe



Source: AID.

Projects in AID's energy assistance program for Central and Eastern Europe may also protect the environment by encouraging conservation and substituting cleaner fuels, even though the primary objectives of the agency's energy program are to improve the efficiency of energy systems in Central and Eastern Europe by improving the production, conversion, distribution, and use of energy. Energy projects with environmental benefits include retrofitting coal-burning power plants to run more efficiently and encouraging use of unleaded gasoline in cars.

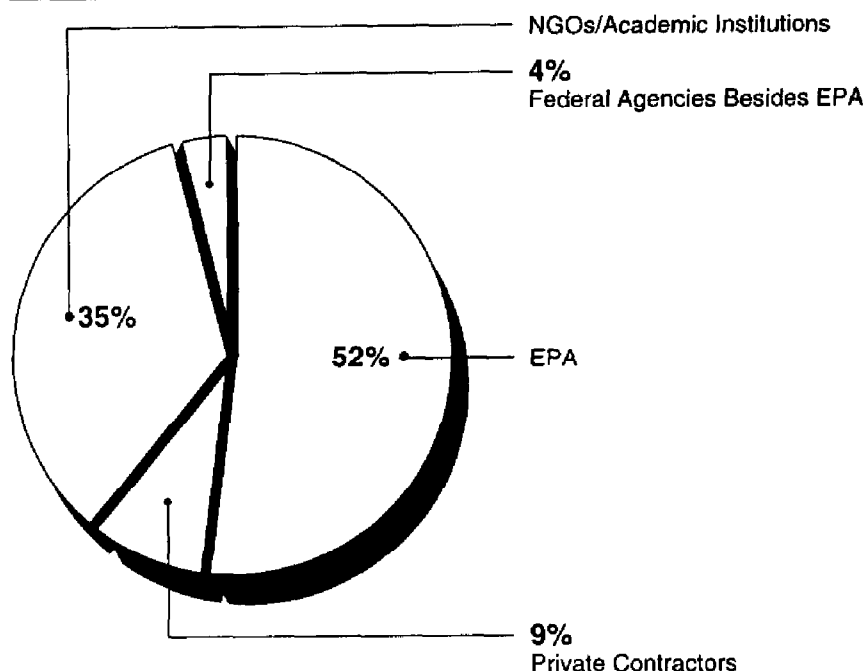
**AID Relies on EPA, Private
Contractors, Academia, NGOs,
and Other Federal Agencies to
Provide Services**

As shown in figure 3.2, AID depends on a combination of federal agencies, private contractors, academic institutions, and NGOs to achieve the agency's environmental objectives in the region. EPA, the largest recipient of funds, received over half of the environmental assistance granted to service providers between fiscal years 1990 and 1993. Within EPA, the Eastern Europe, Soviet Union, and Technical Assistance Group, in the Office of International Activities, is responsible for implementing the agency's program.

Using funds from AID, EPA had sponsored 41 projects as of June 1993, which can be broken down into three broad types—training courses, technical assistance projects, and demonstration projects. The agency provided 12 training courses, most of which were designed to improve the management of the environment. It also developed 13 technical assistance projects to address a variety of needs, including projects for air and water quality management and risk assessment and a "twinning" project to pair U.S. environmental experts with government officials in the region. EPA also sponsored 13 demonstration projects designed to show officials in the region how to address identified environmental problems. Finally, EPA sponsored three projects combining these categories. Overall, EPA relied on 16 separate subcontractors to conduct many of these projects.

NGOs and academic institutions, such as the World Environment Center and the University of Minnesota Consortium, received about 35 percent of the AID funds granted to service providers. Private contractors received about 9 percent to carry out activities to meet AID's environmental objectives in the region. Other federal agencies received the remaining 4 percent of the funds. Figure 3.2 shows the portions of AID's funding going to the various grantees.

Figure 3.2: AID Funds Granted to Service Providers Carrying Out Environmental Activities in Central and Eastern Europe, Fiscal Years 1990 Through 1993



Source: AID.

United States' Environmental Assistance Funds Declined Between 1990 and 1993

Between fiscal years 1990 and 1993, the United States has directed about \$91.4 million to the environment in Central and Eastern Europe. However, since fiscal year 1991, the funds programmed for the environment have decreased annually as a portion of all U.S. assistance to the region. Environmental assistance has decreased from \$38.5 million in fiscal year 1991—which included a one-time \$15 million supplement to the former Czechoslovakia's environment fund²—to \$18.5 million in fiscal year 1993. As a percentage of all U.S. assistance to Central and Eastern Europe, environmental assistance has declined from representing 10.5 percent in fiscal year 1991 to 4.6 percent for fiscal year 1993.

State Department officials said that the environment was placed at a relatively low priority for funding given the other goals of U.S. assistance in Central and Eastern Europe, such as aiding privatization and democratic pluralism. The State Department also noted that funding decisions were based on input from the field concerning the weakness of

²When the Czech Republic and Slovakia split into two countries, the Czech Republic retained \$10 million and Slovakia retained \$5 million of the grant. Although the grant benefited the environment, its primary purpose was to improve these countries' balance of payments.

these countries' environmental institutions. Specifically, the State Department decided that it would be more efficient to fund a modest environmental program that these countries' ministries and NGOs could absorb and to increase the size of the program as the ministries' and NGOs' capacities grew.

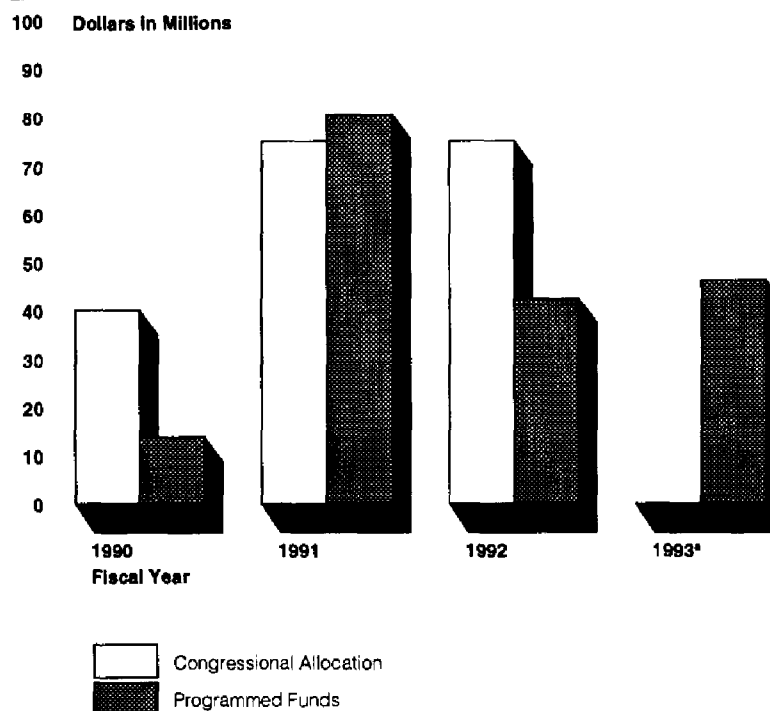
The SEED Act required the President to appoint a coordinator for assistance to the region, who makes broad budgetary and policy decisions. Subsequent foreign assistance legislation identified the major priorities for assistance to the region but granted the authority to move funds across sectors—including away from the environment—as long as the Congress is notified.³

As a result of the Coordinator's discretion to reallocate funds, the amounts directed to the environment after fiscal year 1991 have become less than the congressional allocations in the annual appropriations for foreign operations. Specifically, in fiscal year 1991, the Congress made one allocation of \$75 million to cover both the energy and environmental sectors. However, in fiscal year 1991, AID programmed \$80 million for energy and the environment. In fiscal year 1992, the Congress passed a continuing budget resolution, which allocated another \$75 million for assistance concerning energy and the environment. However, AID programmed only \$42 million—\$33 million less than the amount the Congress specified. The Congress did not specify an allocation for fiscal year 1993, but it increased total funding for Central and Eastern Europe. AID directed about \$46 million to energy and environmental programs (see fig. 3.3).

³P.L. 101-513, the 1991 appropriations act for foreign operations, states that funds allocated in the act under one of six funding categories for use in Central and Eastern Europe may be reallocated for another of these funding categories if the Committees on Appropriations are notified at least 15 days before the reallocation.

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Figure 3.3: Congressional Allocations Compared to Funds Programmed for Energy and the Environment, Fiscal Years 1990 Through 1993



Notes: The programmed funds include those programmed during the year designated as well as in subsequent years.

The congressional allocations for fiscal years 1991 and 1992 permit \$10 million to be removed from the category for energy and the environment to go to the category for agriculture.

*In fiscal year 1993, the Congress did not specify allocations for aid to Central and Eastern Europe, although it did list environmental protection as one of the assistance program's major goals.

Source: AID.

According to a State Department official, funding that might otherwise have gone to the environment was spent either on other sectors or on emergencies, such as to provide humanitarian aid to Albania. But because the Coordinator and his working group did not keep records of their budget deliberations and reallocations, it is unclear exactly why these

reallocations occurred or which programs received the funds originally allocated to the environmental program.⁴

State Department and AID officials added that they plan to increase funding for the region's environment in fiscal years 1994 and 1995. By this time, they estimate that privatization and democratic pluralism will be more firmly established in Central and Eastern Europe and that the U.S. government will begin to refocus its efforts on quality-of-life issues, including the environment.

United States Is Shifting Its Assistance Among Central and East European Countries

While U.S. environmental assistance to the region has decreased, the number of countries receiving the assistance has increased. The activities under the SEED Act, which started in fiscal year 1990, focused almost exclusively on Poland and Hungary, but AID's program expanded to include the former Czechoslovakia, Bulgaria, and Romania. In fiscal year 1992, AID again expanded its portfolio to include the Baltic states—Lithuania, Latvia, and Estonia.

Not only has the number of countries receiving aid increased, but, over time, aid is being reallocated among these countries. Environmental assistance has shifted away from the northern-tier countries of Poland, Hungary, and the Czech Republic towards the southern-tier countries and Baltic states. According to AID, these shifts in funding are due primarily to the overall shift from assisting the rapidly progressing northern-tier countries to assisting the less developed southern-tier countries. AID plans to phase down its programs in Poland, Hungary, and the Czech Republic beginning around 1995 and to shift resources largely to the southern tier and the Baltic states.

U.S. Environmental Assistance Program Shifts Again to Facilitate Capital Investment

Despite the region's continuing need for strengthening environmental institutions and policies, the United States, in concert with other international donors, has started to refocus its program to address the region's need for concrete environmental improvements, such as emissions reduction equipment in iron and steel plants. While not granting large amounts of capital, the United States, in cooperation with other donors, is helping to match up countries in the region with potential

⁴The State Department is required to notify the Congress of budget reallocations through the agency's standard congressional notification system, which shows only what final budget allocations will be, and does not explain why the budget reallocations are requested. An official of the State Department acknowledged to us that officials there recognize that they should nevertheless keep more complete budget records. As of July 1993, however, the State Department had not instituted any changes in documenting budget reallocations.

financing sources and to start to reduce the barriers to environmental investment.

Throughout the program's development, AID and EPA officials have emphasized that the region must develop the capacity to manage capital efficiently. First, without strong environmental institutions, Central and East European countries do not have the ability or incentive to use and maintain pollution control equipment. For example, it is fruitless for the United States to purchase a scrubber for a facility when the country's enforcement laws are too weak to create the incentive for the facility to incur the costs of operating the scrubber. Second, many of the region's localities do not yet have the legal authority to raise revenue to maintain facilities that the United States might provide, such as landfills and wastewater treatment plants.

However, eager to see results in the form of cleaned up environmental damage and pollution control equipment, some officials in Central and Eastern Europe have become frustrated with the U.S. program's strong emphasis on institution building. One East European official echoed the concerns of many of the officials with whom we spoke when he told us that he has been frustrated by seeing the United States spend money studying problems rather than remedying them. Furthermore, according to both international donors and recipient governments, several critical environmental projects in the region, especially in the northern tier, have been identified and are ready for financing.

Although AID has maintained its focus on institution building, it has begun to recognize the need to assist Central and East European countries in addressing their needs for capital investments. It has started addressing the region's concerns by funding some activities designed to "bridge" borrowers with international lenders and to train Central and East European officials in how to generate local financing, such as user fees. In addition, AID has helped countries in the region to prioritize their many pressing needs and has helped to develop the project proposals necessary to apply for loans from multilateral banks—overcoming an obstacle to financing noted by the World Bank.

During the 1993 conference of European environment ministers in Lucerne, Switzerland, the United States responded to the region's concerns by announcing a commitment of \$10 million to facilitate environmental investment in Central and Eastern Europe, according to AID officials. Through the establishment of the Project Preparation Committee,

whose members include officials from EPA, AID, and the World Bank, donors plan to lay the groundwork for selecting capital investment projects and for obtaining the necessary financing.

The committee is also working with multilateral banks to address barriers to international borrowing. The World Bank has increased its emphasis on approving more loans with significant health and environmental as well as financial benefits, even if the projects being financed require higher administrative costs. Also, the bank is considering granting loans to intermediate financial groups, which would in turn use the money to fund several projects—either all environmental projects or a combination of environmental projects and projects in other sectors, such as agriculture or energy.

According to officials in the State Department, AID, and EPA, the Lucerne conference has strongly influenced the direction of the United States' environmental assistance. The Environmental Action Programme has given international credence to the U.S. policy of strengthening the region's environmental institutions and has provided an opportunity for the United States to coordinate its efforts with those of other donors.

AID and EPA have also modified the U.S. assistance program to support the implementation of the Environmental Action Programme. AID plans to fund staff to work at the World Bank to identify and manage environmental projects. It will also send a long-term advisor to the Project Preparation Committee in Brussels as well as send short-term advisors to various Central and East European countries to assist in identifying worthy projects. Finally, EPA has committed up to an additional \$1.5 million from its AID funds to help countries in the region to identify worthwhile projects and mechanisms for financing them.

Conclusions

Over its 4 years of operation, the United States' environmental assistance program for Central and Eastern Europe has changed significantly and has gradually become more integrated with international efforts. Internationally, donors' assistance began as a piecemeal approach, with different countries acting independently and without a plan for preventing duplication or for ensuring a focus on the region's most pressing environmental needs. Likewise, the United States' environmental assistance to the region began in a piecemeal fashion with a few demonstration projects.

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Within 2 years, the United States and other international donors began coordinating their efforts and taking stock of the region's greatest needs. As part of its efforts, the U.S. program shifted toward reforming the region's environmental policies and institutions, increasing the efficiency of the public sector in protecting the environment, and expanding the private sector's environmental services.

More recently, the United States has sought to supplement efforts in institution building by helping the region to obtain financing to support capital improvements—whether they be emissions reduction equipment for iron and steel plants or wastewater treatment facilities. This modification of the U.S. strategy stems from regional officials' frustration over a lack of visible improvements in the environment and difficulties in obtaining financing as the environment continues to compete with other pressing economic and social problems in the region. Recognizing the limited resources available for environmental improvements, the U.S. program has attempted to balance the region's need for concrete environmental improvements with the continuing need to strengthen the region's environmental institutions so that Central and East Europeans are better able to manage the environment themselves over the long term. Although a strategy is in place, certainly several years will pass before we see major environmental improvements and before the overall effectiveness of the strategy can really be assessed.

Increased Coordination and Cooperation Has Improved United States' Environmental Assistance

Given the limited and declining assistance available, strong management of the United States' environmental program for Central and Eastern Europe has become increasingly important. Early efforts were poorly coordinated, but management of the U.S. program has improved in several key areas. AID has strengthened the role of its field staff in monitoring and implementing environmental projects and has consolidated several projects. Although the relationship between AID and EPA has been problematic, these agencies have taken steps to clarify their respective responsibilities. Similarly, the Regional Environmental Center (REC), one of the first and most visible environmental assistance efforts by the United States, has instituted major changes to improve its operations.

AID Consolidates Environmental Activities to Improve Coordination and Oversight

AID has taken several steps to address the management problems in its early environmental efforts. Most notably, it has reduced the number of environmental projects and selected specific geographic areas on which to focus.

Early Efforts Hampered by Poor Program Coordination

To demonstrate U.S. support for Central and Eastern Europe's political and economic reforms, the State Department emphasized that AID needed to deliver services quickly and design a flexible assistance program that could respond to the region's changing conditions. To speed up service delivery, AID shortened its process for designing and implementing a program from approximately 2 to 3 years to 8 to 12 months. To increase the program's flexibility, AID designed one regional program, rather than several country-specific ones, which it planned and managed in Washington, D.C. As stated in our 1992 report, this approach resulted in the development of discrete activities that were not linked together as part of a comprehensive assistance program and that were not coordinated well in the field.¹

These broader problems with AID's assistance to Central and Eastern Europe were particularly evident in the environmental program and were complicated by the fact that the region's environmental needs were not well known. Although AID had developed an overall strategy for its environmental program by August 1990, it was not able to sufficiently coordinate or prevent the duplication of environmental activities in the region. Environmental officials in both Poland and Hungary noted that

¹Poland and Hungary: Economic Transition and U.S. Assistance (GAO/NSIAD-92-102, May 1, 1992).

staff from AID's environment projects frequently asked similar questions and did not appear to share information among themselves. In the spring 1992, AID field staff began to express to the State Department their concerns about the large number of activities and the lack of program coordination. Staff in AID's Warsaw mission, for example, noted that the REC and the Environmental Training Project both supported NGOs and appeared duplicative. Similarly, AID's two projects aimed at strengthening the region's environmental services industry—PRIDE and Sanders International—overlapped, so modifications were made to one of the projects in order to prevent duplication. An external evaluation by the World Environment Center also noted redundancy in AID's environmental activities. It reported that in some cases, the World Environment Center was in competition with, rather than complementary to, projects such as the Environmental Training Project and some of EPA's activities.

AID Consolidates Environmental Activities and Increases Coordination in the Field

In recognition of these problems, AID's Washington staff took several steps to better coordinate and focus environmental projects. AID reported in its May 1992 Environment Strategy that it was restructuring the environmental program because it could not continue to effectively implement so many activities as the program expanded to include additional countries in the region. AID consolidated several environmental projects and reduced the total number of separate contracts, grants, and interagency agreements from 14 in fiscal year 1992 to 8 in fiscal year 1993.

The consolidation of environmental projects also reduced the number of activities that had to be managed in the field. The environmental program for Hungary, for example, went from sponsoring 23 separate activities in its initial phases to 16 as of January 1993. Generally, AID field staff told us that efforts to consolidate activities improved the program's focus and coordination, although the staff in Hungary indicated that as of July 1993, additional reductions were still needed.

AID also decided to concentrate activities in a few key geographic regions in each country in order to increase its overall impact. In particular, the agency decided to focus most environmental assistance in a few areas identified as being highly polluted. In the Czech Republic, AID selected the two major industrial areas—Ostrava and Northern Bohemia—as high-priority areas. In Poland, AID concentrated its environmental activities in Krakow, Upper Silesia, the Mazurian Lakes region, and the northeastern part of the country. In Hungary, AID planned to narrow the scope of its efforts to the Borsod region and the Altalier River Basin. The Central and

East European officials and AID field staff we spoke with indicated that the areas selected as high priorities were generally appropriate.

While AID's Washington staff had independently initiated efforts to consolidate projects and focus them geographically, the Congress also specifically directed AID to strengthen the role of its field staff in order to increase the coordination and improve the oversight of the environmental program's activities.² AID issued an order in December 1992 making field staff primarily responsible for coordinating and monitoring activities in the recipient countries. The order also had field staff concur with key documents laying out the design of the program, including strategies for countries and work plans for projects. In all three countries we visited, AID field staff commented on several work plans and believed that their comments were adequately reflected in the final documents.

Although AID field staff believed that their strengthened role had improved program management overall, it also slowed down the implementation process. According to one project contractor and several EPA officials, AID's Washington office and field offices have held different views about particular aspects of projects. Because of their differences, obtaining approval for work plans or other documents under the new system was more difficult and time-consuming. According to an AID Washington staff member and one project contractor, for example, obtaining the field staff's concurrence for one project resulted in at least a 6-month delay in service delivery. While AID officials acknowledged delays like this one, they noted that the process of obtaining the field staff's concurrence is evolving and has improved as these staff become more accustomed to their new roles.

Cooperation Between AID and EPA Has Increased

Although AID and EPA have had difficulty sharing administrative responsibility for the environmental assistance program, they have moved to better define their expectations and responsibilities. As the roles of AID and EPA changed since the start of the U.S. environmental program in Central and Eastern Europe, the authority for operations shifted from EPA to AID. In the process, AID's responsibilities for overseeing EPA's activities

²According to the 1993 Foreign Operations, Export Financing, and Related Programs Appropriations Act, "Under the general direction of the President's Coordinator for assistance to Eastern Europe and under the guidance of the Ambassador in each respective country in Eastern Europe and the Baltic States, the principal officer of the Agency for International Development (AID) in each such country shall have primary responsibility, to the maximum extent practicable, for the day-to-day implementation of the assistance program and for identifying and making recommendations for potential AID programs and projects in such country including, to the extent practicable, the authority to concur in planning documents, project and program proposals, significant contract documents and contractor selection. . . ."

were not clearly defined. However, AID and EPA's cooperation in carrying out the Environmental Action Programme and work on the accompanying task force and Project Preparation Committee are evidence of an improved relationship.

Program Responsibility Shifted From EPA to AID

As a result of legislative changes, the responsibility for managing the bulk of the environmental program shifted from EPA to AID in 1991. Under the SEED Act, EPA was responsible for administering the environmental program, although funds were passed through AID. Under subsequent foreign assistance appropriations, AID became responsible for administering funds and delegated a portion to EPA through an interagency agreement.

While some EPA officials objected to this shift in the administration of the program, the Congress consolidated all assistance, including environmental activities, under AID. This change was made to provide the State Department with the flexibility to move resources across program sectors and countries in response to the changing needs of the region. The shift in the program's administration was also intended to improve the coordination among the federal agencies providing assistance to the region. As noted in a prior GAO report, U.S. agencies working in the region, including EPA, had not coordinated well with one another.

One result of the change was to limit EPA's role in developing and implementing the program overall. EPA participated in selecting the original environmental assistance activities and continues to hold a seat on the interagency council that approves individual environmental projects. However, now that the projects have been selected and the program is under way, the council has become inactive and has not met since 1991. EPA's role has been modified to developing and implementing the agency's own projects and consulting informally on the management of AID's other environmental projects.

Progress in Clarifying AID's and EPA's Roles

To improve coordination, AID and EPA have agreed that EPA should take the lead in working with the national environment ministries in the region, while AID should focus primarily on working with NGOs, local governments, and businesses in the private sector. Both agencies have also worked together to develop strategies for U.S. environmental assistance to individual countries in Central and Eastern Europe.

Officials from both agencies agreed that the working relationship improved significantly as their respective roles became better defined and the two agencies had more experience working together. The Chief of AID's Environment and Natural Resources Division in the agency's Europe Bureau and EPA's Director of Eastern Europe, Soviet Union, and Technical Assistance Group both indicated that AID's and EPA's programs are separate and complement each other well. These officials also said that they consult each other regularly on their respective programs.

Officials from the State Department, EPA, and AID all pointed to AID and EPA's cooperation in implementing the Environmental Action Programme as an indication of the improvements in these agencies' working relationship. Officials from AID and EPA attended the ministerial conferences together and jointly supported the resulting program. They divided the responsibilities stemming from the conference so that EPA is leading U.S. efforts in the international task force set up to implement the program, and AID is leading U.S. involvement in the Project Preparation Committee. Both agencies are coordinating their resources to help Central and East European governments identify potential projects and obtain financing for these environmental investments.

While other aspects of EPA and AID's relationship became more focused over time, AID's role in overseeing EPA's activities remained somewhat ambiguous. According to a February 1993 report by AID's Inspector General, the agency's role in monitoring interagency agreements, including those with EPA, needed additional clarification.³ The report noted that AID's role had not been clearly defined in legislation nor in the interagency agreements between the two agencies. While the SEED Act established the State Department as the coordinator for all activities under the program, the act did not directly address AID's oversight role. AID's guidance concerning the program made the agency responsible for "residual" oversight of funds passed through AID to other federal agencies. The Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1993 clarified that AID has the responsibility for coordinating the implementation of the assistance program's activities in the field, including those of other federal agencies. However, the act did not specify what AID's overall responsibilities are for monitoring interagency agreements.

³AID's Oversight Role for Interagency Agreements Under the Central and East Europe and New Independent States Programs Needs Clarification, AID-Inspector General, Report No. 8-000-93-02 (Feb. 26, 1993).

Reports required by the interagency agreements also failed to provide sufficient information to allow AID to oversee the program's activities, according to the Inspector General's report. For example, although the two agreements between AID and EPA require EPA to provide periodic progress and financial reports, the reports have not provided enough information for AID staff to monitor activities. AID's Inspector General also found that in one case, EPA had not submitted all of its required quarterly progress reports, nor had it submitted any financial reports.

We discussed AID's reporting requirements with EPA officials. EPA officials acknowledged that their reports to AID were often late and did not cover all of the required time periods. EPA officials also noted that financial reports had not been provided at the time of the review by AID's Inspector General because EPA's financial reporting system was not configured to provide the required information. EPA staff also noted that although improvements have been made in the interagency working relationship, the organizational structure has been somewhat cumbersome. AID, according to these staff, subjected EPA to reporting requirements very similar to those for its private contractors despite the fact that EPA, as a federal agency itself, is subject to its own requirements. However, AID revised the reporting requirements for EPA in its interagency agreements for fiscal year 1993. Specifically, the financial reporting requirements were changed to better match EPA's reporting capabilities, and the specific format for progress reports was described more fully.

Given their respective missions, the two agencies have brought different strengths to the program. AID has more experience than EPA in working on international development issues. EPA, for its part, has strong technical knowledge about environmental issues. Having direct contact with EPA officials was one of the major strengths of the U.S. assistance program, according to officials from environment ministries of all three of the countries we focused on. AID field representatives in both Poland and the Czech Republic also noted that generally EPA's programs are technically the strongest of all of the programs conducted for AID.

The Regional Environmental Center Addresses Operational Weaknesses

While criticized for its financial management and programmatic weaknesses, the REC has made substantial progress in instituting changes to address these problems. Established at the initiative of the United States and with the support of other international donors, the REC was one of the earliest and most visible U.S. assistance efforts in Central and Eastern Europe since democratic reforms began. It was given a broad mandate to promote public awareness of environmental problems in the

region. During the REC's first 2 years of operations, a number of independent evaluations documented weak internal controls and several management problems. As a result, AID withheld approximately \$1.4 million, about one-third of U.S. funding to the REC, until EPA provided evidence that REC's operations had been improved. EPA released the funds in April 1994, and AID and EPA officials are considering additional funding for the REC. While AID and EPA officials are confident that recent institutional changes will improve operations, they are still discussing how much and in what form additional support should be given. AID is hesitant to commit any additional funds until the REC has demonstrated that it can operate more effectively.

REC's Early Operations Suffered From Financial Management and Programmatic Weaknesses

The REC was opened in September 1990 under difficult circumstances. According to REC and State Department staff, they were under extreme pressure to open the center quickly to demonstrate Western support for the region's transition. The REC opened approximately 13 months after planning for it began and grew very quickly during its first year of operation. EPA and REC officials noted that they did not anticipate the administrative difficulties of working in Central and Eastern Europe. Furthermore, the center was staffed with individuals from the United States as well as Western and Eastern Europe, all of whom had very different management styles.

In response to allegations of financial impropriety within the REC, AID's Inspector General's office reviewed the center's financial operations in December 1991. The Inspector General's office found no evidence of fraud, waste, or abuse, although it did identify 10 internal control weaknesses. Specifically, it noted a lack of written administrative policies and internal control procedures for various administrative functions, such as the approval of travel and the documentation of time and attendance. The REC's Board of Directors accepted 9 of the 10 recommendations and agreed to address the issues identified. The 10th item called for an audit of subgrantees receiving over \$25,000. REC staff responded that this requirement could be prohibitively expensive but agreed to consider other alternatives to address this issue. In response to the Inspector General's report, the REC's Board of Directors contracted with Ernst and Young to prepare an audit of the center's entire financial operations. This second audit, completed by May 1992, identified many of the same internal control weaknesses reported by AID's Inspector General.

The REC's broad charter, lack of a strategy, and cumbersome organizational structure have all contributed to the center's programmatic problems. According to an external evaluation of the center's operations,⁴ the REC's original charter was too broad—listing a wide range of services that the center could provide to a very large constituency. Furthermore, the center did not develop a strategic plan to formally establish clear priorities and achievable goals during the early months of operation. The evaluation also noted that the REC's Board of Trustees was too large to be responsive to the organization's needs or to assist in setting priorities. Although the REC had several constituent groups—NGOs, governments, academia, and private industry—the report noted that the center had focused strongly on NGOs. It also stated that the center needed more of a regional focus and had concentrated too much on Hungary. As a result, Hungary had received a relatively high percentage of the available grant funds in 1990 and 1991. Finally, the report recommended that the REC explore alternative sources of revenue to secure its long-term future.

REC Institutes Changes in Response to Identified Weaknesses

The REC has made significant progress in making the institutional changes necessary to address the financial management and programmatic weaknesses identified in these audits. During 1992, the REC strengthened its financial management and made most of the required improvements. After reviewing audit reports and additional information provided by EPA, AID concluded in May 1993 that the REC had made progress in strengthening its internal controls, had addressed most of the internal control weaknesses, and should receive additional funds. However, AID remains concerned about the REC's reporting requirements for subgrantees and has requested that new reporting requirements be developed and formalized by December 1993.

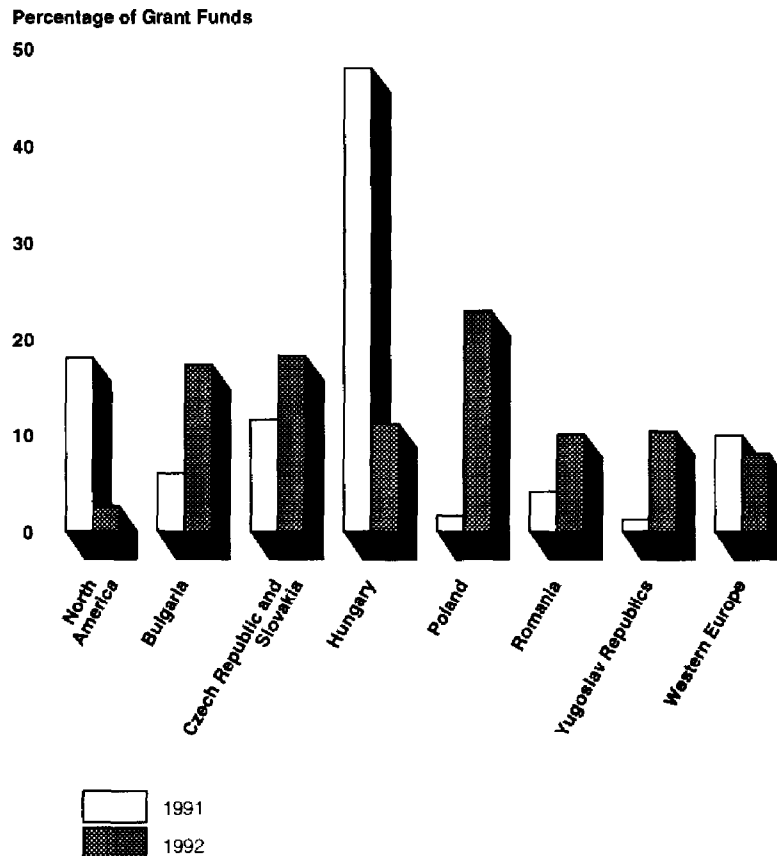
The REC's Board of Trustees has also implemented several important programmatic changes. It selected a new director, who assumed duties in March 1993. It also approved the REC's amended charter—which halved the Board to seven members and strengthened the relationship between the Board and the Director. The Board was given broader oversight responsibilities than those contained in the old charter and will be advised by a new general assembly. The general assembly will consist of no more than 29 representatives from the Central and East European region and donor countries.

⁴The Commission of the European Communities, in consultation with the United States, commissioned PA Consulting Group to audit the REC's operations. The final report was completed in Aug. 1992.

The Board adopted a new strategic plan for the REC in April 1993. The plan formally identifies the center's primary constituency as NGOs, although it defines the center's constituent groups to include academic and scientific groups and institutions, local and municipal governments, national governments and legislative bodies, international organizations and lending groups, and businesses. It also focuses the center's work on three primary areas—grant-making, task force initiatives, and information resources and clearinghouse services.

To broaden participation in the center, the REC's Board of Trustees decided to establish outreach offices in Warsaw, Poland; Bratislava, Slovakia; Bucharest, Romania; and Sofia, Bulgaria. These offices were funded by EPA. The REC has also established REC representatives in Slovenia, Croatia, Albania, and the Czech Republic. The REC also distributed its grant funds more widely across the region during 1992. As shown in figure 4.1, the Czech Republic, Slovakia, Poland, and Romania received a greater percentage of the available grant funding in 1992 than in 1991. Hungary, Western Europe, and North America received a lower percentage in 1992.

Figure 4.1: Allocation of the REC's Grant Funds by Country, 1991 and 1992



Source: REC Annual Report (1992).

The REC has also earmarked grant funds for specific purposes on the basis of the results of a needs assessment. As of September 1993, approximately 80 percent of the REC's grant funds had been targeted to the center's priority areas—nature protection, environmental education, pollution prevention, sustainable agriculture, and institutional development. The remaining 20 percent will be disbursed at the discretion of the REC's outreach offices.

Finally, the REC's Board of Trustees has started to consider the mechanisms for ensuring the center's long-term financial sustainability.

The REC's Executive Director estimates that the center will have sufficient funding until September 1995. The United States, which is one of the largest donors to the REC's annual budget of approximately \$2.5 million, currently has no firm plans to provide additional support, and other donors' future commitments are also unclear. However, U.S. officials have discussed the possibility of providing additional U.S. support to the center and agree that future support in some form should be pursued. Both AID and EPA want to proceed cautiously, given the REC's past difficulties. AID maintains that the REC should take steps to explore other funding sources, such as Central and East European governments or private companies and foundations. REC officials are pursuing additional funding from Central and East European governments and anticipate that these governments will increase their contributions over the next several years.

Conclusions

AID has addressed many of the issues hampering the environmental assistance program. AID has consolidated the number of projects and increased the monitoring and coordination of environmental activities by field staff. AID and EPA have improved their working relationship over time, and their respective projects, once fragmented and poorly coordinated, now appear to be more complementary. AID and EPA have reached a general agreement on their respective roles and have collaborated effectively on country-specific environmental plans and on the Environmental Action Programme. Although AID's role in monitoring EPA's ongoing activities continues to be somewhat problematic, AID and EPA officials have taken steps to improve the process. AID has attempted to better define EPA's specific reporting requirements and has supported EPA's efforts to better meet them. Similarly, the REC has addressed most of the operational weaknesses identified by earlier evaluations. Although the United States' specific role at the REC remains uncertain, continued U.S. participation appears likely and warranted as the center demonstrates that its operations have improved.

Federally Funded Environmental Activities in Central and Eastern Europe

In the United States, the U.S. Agency for International Development (AID) has the responsibility for choosing the providers of environmental assistance to Central and Eastern Europe and for overseeing these providers' activities, including those of other federal agencies. The list below represents AID's projects as of September 1993.

Table I.1: AID's Projects in Central and Eastern Europe as of Sept. 1993

Provider	Date/obligations	Location	Project description
World Environment Center	1990-97/ \$8,832,000	Baltic states, Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia	Provide to the region's governments and industries U.S. advisors on topics such as pollution prevention, environmental management, and community awareness
World Wildlife Fund	1990-91/ \$100,000	Czech Republic, Poland, Hungary, Slovakia	Provide training in managing nongovernmental organizations (NGO) and increasing public participation
Harvard Institute for International Development	1991-92/ \$867,000 (as subgrant of grant to the World Environment Center)	Baltic states, Czech Republic, Hungary, Poland, Romania, Slovakia	Provide assistance in integrating environmental and economic reform and provide training in environmental economics and policy analysis
Environmental Law Institute	1992-95/ \$768,000 (as subgrant of grant to the World Environment Center)	Bulgaria, Czech Republic, Hungary, Poland, Romania	Assist in drafting environmental laws
Center for Clean Air Policy	1991-92/ \$1,000,000	Czech Republic, Slovakia	Assist in local environmental management; provide training in managing water quality, disposing of sludge, and developing environmental policy; carry out pre-investment studies

(continued)

Appendix I
Federally Funded Environmental Activities
in Central and Eastern Europe

Provider	Date/obligations	Location	Project description
World Wildlife Fund	1991-96/ \$800,000	Bulgaria, Czech Republic, Poland, Slovakia	Provide small grants to NGOs through a biodiversity program and hold a workshop on nature conservation
National Park Service	1992-93/ \$945,000	Bulgaria, Hungary, Poland, Romania	Provide training and technical assistance for nature protection, develop a nature center in a national park, and help a proposed debt-for-nature swap
U.S. Department of Agriculture	1991-93/ \$1,150,000	Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia	Provide technical assistance and training in soil conservation, integrated pest management, and remediation of groundwater contamination
Camp, Dresser & McKee	1991-96/ \$2,340,000	Bulgaria, Hungary, Latvia, Romania, Slovakia	Provide technical assistance to increase institutional capacity and obtain financing for improvements to the Danube River Basin
University of Minnesota Consortium	1990-95/ \$5,548,000	Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia	Provide training for local governments, NGOs, private sector companies, and members of academia in marketing, environmental assessment, and business as it relates to environmental protection
Duke University	1991-96/ \$700,000	Czech Republic, Slovakia	Provide training in environmental economics, water policy, and environmental information management

(continued)

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Federally Funded Environmental Activities
in Central and Eastern Europe

Provider	Date/obligations	Location	Project description
National Park Service	1991-96/ \$300,000	Bulgaria, Poland	Provide technical assistance and training in parks development, conservation, and biodiversity
Sanders International	1992-95/ \$2,425,000	Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia	Assist in matching U.S. companies with investment opportunities in the private environmental services sector
Chemonics International	1992-93/ \$350,000	Czech Republic, Hungary, Poland, Slovakia	Assist in helping the private environmental services sector understand available technology, develop least-cost solutions to environmental problems, and access financing
Research Triangle Institute	1992-96/ \$5,400,000	Hungary, Poland	Provide technical assistance in environmental management and funding proposals
U.S. Environmental Protection Agency (EPA)	1990-97/ \$29,285,000	Baltic states, Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia	Provide technical assistance, training, and demonstration projects in many areas of environmental management through various subgrants as well as through work by the agency's own staff

EPA's Activities in Central and Eastern Europe

EPA receives funds from AID to carry out environmental activities in Central and Eastern Europe. EPA, in turn, often approves subgrants to contractors for environmental activities in the region. Below is a list of EPA's activities in the region as of June 1993.

Table II.1: EPA's Activities in Central and Eastern Europe as of June 1993

Provider	Date	Location	Project description
EPA	1990-95	Hungary, region	Support the Regional Environmental Center to act as an information clearinghouse, provide grants for environmental projects, and sponsor discussion forums, as mandated by the Support for East European Democracy (SEED) Act
EPA	1991-93	Poland	Develop an air monitoring network, as mandated by the SEED Act
EPA/Army Corps of Engineers	1991-94	Poland	Develop a drinking water and wastewater treatment system, as mandated by the SEED Act
EPA	1991-93	Hungary, Poland	Assist in drafting legislation on environmental liability, environmental standards, and environmental enforcement
EPA	1991-92	Poland	Assist in developing management and information systems for environmental management
EPA	1992-95	Hungary	Sponsor a demonstration project in watershed management, including constructed wetlands
EPA	1992-95	Bulgaria, Czech Republic, Slovakia	Provide software and assist in using geographical information systems
EPA	1991-94	Bulgaria, Czech Republic, Hungary, Romania, Slovakia	Assist in improving surface and drinking water in the Danube River Basin
EPA	1991-93	Hungary	Sponsor a workshop for and provide technical assistance to Hungary's environment ministry to develop a strategic information resource plan

(continued)

**Appendix II
EPA's Activities in Central and Eastern
Europe**

Provider	Date	Location	Project description
EPA	1991-93	Poland	Provide an organizational assessment with recommendations to restructure Poland's environment ministry
EPA	1992-94	Estonia	Assist in conducting an environmental impact assessment of the expansion of an oil-shale-mining area
EPA	1992-95	Lithuania	Provide training and technical assistance to review environmental impact assessments for Lithuania's environment department
EPA	1991-96	Czech Republic, Poland	Assist in risk assessment of health effects in a heavily polluted region
EPA	1992-93	Czech Republic	Advise the Czech environment ministry on environmental liability, environmental audits, and other issues
EPA (Region II)	1991-96	Bulgaria	Provide technical assistance to Bulgaria's environment ministry
U.S. Department of Energy/Battelle PNL	1990-93	Poland	Provide support for the Polish Foundation for Energy Efficiency, which promotes economic development and environmental protection through energy efficiency
U.S. Department of Agriculture Graduate School	1992-93	Poland	Provide training in contract management
U.S. Information Agency	1992	Bulgaria, Czech Republic, Poland	Provide an exhibition entitled "Environmental Action in America" and corresponding lectures, workshops, and meetings
University of Virginia	1993	Poland	Provide training in environmental auditing
Iowa State University	1992-95	Lithuania, Poland	Provide demonstration projects to teach about and prevent damage from agricultural runoff
University of Minnesota Consortium	1992-93	Bulgaria, Hungary	Provide workshops on sustainable development
Wisconsin Department of Natural Resources	1992-95	Latvia	Assist in developing short- and long-term plans to improve drinking water quality
Center for Hazardous Materials Research	1991-93	Poland	Sponsor a "twinning" project between Allegheny Co., Pennsylvania, and Katowice to reduce industrial pollution

(continued)

**Appendix II
EPA's Activities in Central and Eastern
Europe**

Provider	Date	Location	Project description
Eastern Research Group and EPA	1991-92	Hungary, Poland	Provide training in environmental enforcement
Environmental Health Center	1992	Czech Republic, Hungary, Poland, Slovakia	Support the Central European Environmental Journalism Program, which provides newsletters and conferences for U.S. and Central and East European environmental journalists
Gannett Fleming	1992-93	Estonia, Lithuania, Poland	Provide training in environmental impact assessments
Industrial Economics	1993-94	Hungary	Provide training in financing environmental investments
IEC, Sullivan, Clayton, Ross	1991-94	Czech Republic, Poland	Sponsor a demonstration project using risk assessment to develop a cleanup plan for an industrial region
Institute for Sustainable Communities	1993-94 1991-93	Baltic states, Hungary	Develop an environmental education curriculum for primary schools and teacher training colleges
Institute for Sustainable Communities	1992-95	Bulgaria, Hungary, Poland	Establish training centers in environmental management
Institute for Sustainable Communities	1992-93	Bulgaria	Sponsor a demonstration project to assess environmental risks in a city in Bulgaria
PRC	1993-94	Czech Republic, Hungary, Slovakia	Provide training in preparedness for chemical emergencies
PRC	1992-93	Hungary	Provide training in ranking hazardous waste sites
Raven Ridge Resources	1991-92	Poland	Provide a demonstration project to recover coal-bed methane and convert it to energy
TVA	1991-94	Hungary	Sponsor a demonstration project in constructing wetlands
World Environment Center/Clayton Environmental	1992-93	Bulgaria, Czech Republic, Latvia, Lithuania, Slovakia	Provide training in risk assessment
World Environment Center/Environomics	1992-93	Bulgaria, Slovakia	Provide training in environmental economics
World Environment Center/Mercer Management	1992-93	Bulgaria, Czech Republic, Slovakia	Provide training in environmental policy and decision-making
Water for People/Water Environment Federation	1991-93	Bulgaria, Hungary, Poland	Assist exchanges between water professionals in the United States and Central and Eastern Europe

(continued)

Appendix II
EPA's Activities in Central and Eastern
Europe

Provider	Date	Location	Project description
(None yet chosen)	1993-95	Baltic states	Assist an evaluation of the adequacy of existing air and water monitoring networks

Comments From the Agency for International Development



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

JAN 31 1994

Mr. Frank C. Conahan
Assistant Comptroller General
United States General
Accounting Office
441 G Street, N.W. - Room 5055
Washington, D.C. 20548

Dear Mr. Conahan:

I am pleased to provide the United States Agency for International Development's (USAID) formal response on the draft GAO report entitled "Central and East European Environment: U.S. Efforts to Help Resolve Institutional and Financial Problems" (January, 1994).

Overall, we found the report balanced, accurate, thorough, and well-written. We agree with the conclusions of the report, without any substantive changes whatsoever. We did have a few technical clarifications, which are enclosed for your review and inclusion in the final report. Congratulations on a job well done.

Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,

A handwritten signature in dark ink, appearing to read "Larry E. Byrne".
Larry E. Byrne
Assistant Administrator
Bureau for Management

Enclosure: a/s

320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

Comments From the Environmental Protection Agency



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

FEB 15 1994

OFFICE OF
ADMINISTRATION
AND RESOURCES
MANAGEMENT

Mr. Peter F. Guerrero, Director
Environmental Protection Issues
Resource, Conservation and Economic Development Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Guerrero:

I am transmitting to you the Office of International Affairs' response to the General Accounting Office's (GAO) draft report entitled Central and East European Environment: U. S. Efforts to Help Resolve Institutional and Financial Problems.

This is an excellent report that accurately describes the complex interrelationships involved in providing environmental assistance to Central and Eastern Europe. Enclosed are detailed comments addressing various aspects of the draft report for your consideration.

Thank you for the opportunity to comment on the draft report. I look forward to receiving the final report.

Sincerely,

David J. O'Connor

for Jonathan V. Cannon
Assistant Administrator and
Chief Financial Officer

Enclosure

Comments From the Department of State



United States Department of State

Washington, D.C. 20520

FEB 8 1994

Dear Mr. Fultz:

Thank you for the opportunity to comment on your draft report, "CENTRAL AND EAST EUROPEAN ENVIRONMENT: U.S. Efforts to Help Resolve Institutional and Financial Problems," GAO Job Code 160183. Comments are enclosed.

If you have any questions concerning this response, please call Fletcher Burton, EUR/EEA, at 647-4936.

Sincerely,

A handwritten signature in cursive script that reads "Carolyn S. Lowengart".

Carolyn S. Lowengart
Director
Management Policy

Enclosure:
As stated.

cc:
GAO - Ms. Maron
State - Mr. Burton

Mr. Keith Fultz,
Assistant Comptroller General,
Resources, Community and Economic Development Division,
U.S. General Accounting Office,
441 G Street, N.W.,
Washington, D. C. 20548.

GAO Draft Report: "CENTRAL AND EAST EUROPEAN ENVIRONMENT:
U.S. Efforts to Help Resolve Institutional
and Financial Problems," GAO Job Code 160183

The Office of the Coordinator for East European Assistance (EUR/EEA) submits the following to clarify the way in which the GAO report represents the decision to give environmental programs lower-priority funding status in the early years of the SEED program on page 55.

Now on pp. 41-42.

There were two fundamental factors involved in the environment funding decision. First, as mentioned in the report, economic restructuring -- with an emphasis on privatization -- and the development of democratic institutions were the priority goals in the first three years of the SEED program (1990-1993). The policy imperative of supporting the basic democratic and economic transitions of Central and East European countries following their revolutions meant environmental assistance was of slightly lower priority during this period.

Second, and equally important in the funding decision, however, was a judgment we made based on field input that the environmental ministries and NGO's were very weak and ineffective during this early period in the transition. This appraisal is echoed in the GAO report. Thus, we decided it would be a more efficient use of scarce assistance resources to start off with a modest environment program which these groups would be able to absorb, and to increase its size as their capacity grew -- which we have begun to do in FY 1994.

Major Contributors to This Report

Resources, Community, and Economic Development Division, Washington, D.C.

Bernice Steinhardt, Associate Director
Steve Elstein, Assistant Director
Angela Sanders, Evaluator
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European Office

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Jodi McDade, Evaluator
Patricia Foley Hinnen, Advisor
Peter J. Bylsma, Advisor

Related GAO Products

East European Energy: Prospects for Improvement in Albania's Energy Sector (GAO/NSIAD-93-27, Nov. 4, 1992).

This report described how Albania's energy crisis threatened economic recovery; documented the significant declines in the production and importation of oil, gas, and coal; and outlined the country's plans to modernize. Finally, the report presented U.S. and international efforts to assist Albania in developing its energy economy and removing barriers to investment.

East European Energy: Romania's Energy Needs Persist (GAO/NSIAD-92-257, Aug. 4, 1992).

This product described Romania's energy resources and challenges, outlined U.S. assistance, and identified efforts to make the business climate more attractive for developing the energy sector.

Poland and Hungary: Economic Transition and U.S. Assistance (GAO/NSIAD-92-102, May 1, 1992).

Initially, the U.S. government developed a short-term approach providing regional assistance. However, economic transition in Central and Eastern Europe proved to be more difficult than anticipated, with general economic conditions deteriorating and trade and investment lagging behind initial projections. Therefore, we recommended that the Agency for International Development's program (1) be restructured to recognize the longer-term needs of Poland and Hungary and (2) have country-specific funding targets so that recipients could better plan for and prioritize their needs.

East European Energy: U.S. Business Opportunities in and Assistance to Poland's Energy Sector (GAO/NSIAD-91-206, May 16, 1991).

This report described each sector (coal, oil, gas, and electricity) of Poland's energy economy along with the requirements for assistance and impediments to foreign trade and investment.

Eastern Europe: Status of U.S. Assistance Efforts (GAO/NSIAD-91-110, Feb. 26, 1991).

The focus of this report was the implementation of the Support for East European Democracy Act of 1989, including the obligations and

expenditures, roles played by various U.S. agencies, and problems with earmarking funds and coordinating activities.

Eastern Europe: Donor Assistance and Reform Efforts (GAO/NSIAD-91-21, Nov. 30, 1990).

First in our series of reports on Eastern Europe, this product outlined international economic assistance to five East European countries and discussed socioeconomic problems and opportunities in the region.

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